# RULERS OF AMERICA

# RULERS OF AMERICA

## A STUDY OF FINANCE CAPITAL

By ANNA ROCHESTER

INTERNATIONAL PUBLISHERS
NEW YORK

PRINTED IN THE U. S. A.
*This book is composed and printed by union labor*

# CONTENTS

PART THREE: CAPITALISM IN CRISIS



APPENDICES

# FOREWORD

James W. Gerard, lawyer and former ambassador to Germany, stated in August, 1930, that this country was ruled by 59 financiers and corporation officials. His list was both too long and too short. For he made no distinction between the much smaller number of actual rulers and their chief lieutenants. And, of course, he omitted scores of secondary men who are responsible and important executives within the chief financial empires. But Gerard's list spread forth as front page news the fact that financial control had continued, unshaken by Standard Oil exposures, the Pujo Report, Supreme Court decisions, post-war regulating commissions, and the first year of the great economic crisis which began in 1929.

Since then various Senate investigations have piled up fresh evidence of the power and the methods of the inner Wall Street rulers. As this book is completed, Morgan partners are appearing before the Nye Committee investigating the munitions industry. The chief news of the day includes facts on the part played by the Morgan firm in 1914-15 in promoting the war boom and the war loans which tied American business interests to the cause of the Allies and led to irresistible pressure for America's entering the World War.

Financial rulers are important, not as picturesque figures, strong in their lust for wealth and power, but as the heads of the economic empires in which American capitalism reached its peak of development. To sketch their empires is part of our task, but that is not enough. We must raise certain basic questions. What is the essential pattern of control in the United States? What are the underlying trends from which it developed? What is the effect of this control in the life of the people? Will power pass from the financial rulers through their inner collapse?

In working toward an answer to such questions we are concerned primarily with *economic* facts. And since material on wealth and income and the general condition of the working class is relatively abundant, we have focused attention in this book on the structure and pattern of finance-capitalist control. Its relation to poverty and to the workers' movement is indicated.

Of course every selection and analysis of facts reflects a writer's understanding of economic theory and his sympathies in the clash between capitalism and socialism. The present book is based on the eco-

nomic and political teachings of Marx as developed for the imperialist era by Lenin. It attempts to show the broad outlines of capitalist structure in the United States and illustrates for this country the basic argument presented by Lenin in his *Imperialism, the Highest Stage of Capitalism.*

Our material falls naturally into three main sections.

Part I, "The Rulers and their Domain," describes the principal financial groups and outlines the principal ways in which they exercise control and the effect of the development of finance capital on the distribution of income in the United States.

Part II, "Control in Selected Industries," gives some details of their grip on nine industries, with special reference to the confused interplay of monopoly and competition.

Part III, "Capitalism in Crisis," reviews the facts about American foreign investment, colonies and spheres of influence and analyzes the economic crisis-depression against the background of the general crisis of capitalism.

This study is sponsored by the Labor Research Association which has, at every stage of the work, given counsel and help. The writer has also had invaluable assistance from several persons who do not share the writer's views. Special acknowledgment is due to Elsbeth E. Freudenthal who aided in the research and the checking of material and herself wrote three of the chapters on selected industries, and to the staff of the Economics Division of the New York Public Library without whose patient courtesy and knowledge of original sources the writer would have been unable to locate much of the necessary material.

A. R.

January, 1936.

Part One

# THE RULERS AND THEIR DOMAIN

## CHAPTER I

# FINANCIAL RULERS EMERGE

CAPITALIST industry, which in the United States blossomed into the wealth and power of Morgan, Rockefeller, Mellon and their allies and lieutenants, has everywhere followed, with minor variations, certain basic lines of growth.

Small units of production employing a few wage-earners and requiring relatively small capital more and more yield place to large highly mechanized establishments employing many hundreds of workers and representing great sums of capital investment; corporations more and more displace individual employers and partnerships. With the growth of corporations the manipulation of capital plays an increasingly important part in the economic process, and great banking and industrial monopolies develop which draw off an increasing share of the profits extracted from the working class. Bankers acquire industrial interests. Industrial corporations acquire banking interests. A new type of financier emerges who functions in both fields and represents the "finance capital" (as distinct from banking capital) which is characteristic of monopoly capitalism and the imperialist era.

Such a fusion of banking and industrial capital was first recognized as the dominant feature of American economic life during the crisis and depression of 1893-97 and the boom years that followed the Spanish-American War of 1898. But the process of increasing concentration under financial control still continues, and the forces leading to monopoly capitalism had been developing ever since the Civil War.

## *The Civil War*

The Civil War (1861-65) marked the victory of capitalism over chattel slavery. The conflict between North and South had several aspects, but all were related to the historic struggle between two mutually exclusive orders of society.

Climate and resources had prevented the profitable large-scale exploitation of slave labor in the North. Agriculture, both in the older states of the North and in the pioneer settlements pushing ever further westward, was developed on a capitalist basis, with relatively small holdings on which the farmer and his sons or one or two hired "hands" wrestled

with the problem of raising food and cattle and a money crop for the increasing city market. At the same time factory industry, based on wage labor, had been growing up and displacing the home spinner and the independent craftsman. Capitalist economy had taken deep root in New England and, in fact, throughout the North and West, before the middle of the nineteenth century. Textile machinery, sewing machines, agricultural machinery and machine tools made in Yankee factories were recognized in the 1850's as perhaps the best in the world. Europe was even buying a few American locomotives. Great Britain sent a special commission to study machinery in the United States.

In 1860 the total volume of manufacturing was still small, and mills processing raw materials were much more important than factories turning out finished goods, but the broad foundations of manufacturing had been laid. Railroads were penetrating even a short distance beyond the Mississippi and the innumerable unconnected eastern lines were beginning to provide through routes from the Atlantic coast to the Middle West.

Both North and West were dependent upon the South. Southern slave-grown cotton was needed for New England textile mills. Farms in the Middle West were sending their crops and cattle down the Mississippi to feed the cotton country. Northern merchant-bankers were making high profits from a three-cornered trade: they financed exports of slave-grown raw cotton and imports of manufactured goods from Europe. They drew off a profit also from shipping supplies to the southern plantations: European luxuries for the thousand wealthy planters at the top, and for a broader market the "fifteen yards Lowell" and "ten yards linsey" which every planter allowed yearly to each Negro slave.[1] On the side, they were selling in Europe American bonds issued by states and counties to raise subsidies for new railroad lines. Sometimes also stocks and bonds of the railroad companies themselves.

But back of this intertwining of interests was a basic clash between the systems of free labor in the North and slave labor in the South.

Footloose wage-earners available for hire from day to day were necessary to industry. The employer wanted capital for building, equipment and materials. He could not profitably tie it up in the bodies of slaves. Also, a wage-earner, paid in money and free to drift from one job to another, could be made to believe that he was a free and independent citizen who received from the employer a "fair" return for his labor. He would give better work than a slave whose bondage was clear beyond any possibility of deception. The wage-worker produced more than a slave. His employer could allow the wage-worker a better standard of living than the slaves endured and still retain for himself a considerable slice of the value produced by the worker. And in the ups and downs of industry the burden of depressions when factories closed down could be thrown back upon the "free" workers, leaving the employers without responsibility for supporting them.

This need for wage-workers was basic throughout the North and the Middle West. It came to open conflict with the slave system in the frontier

farm country of the West. The slave plantation economy faced destruction if it could not expand and carry slave labor into new territory. Equally, the independent farm pioneers and the scattering small industries growing up in the middle western towns knew that their economic life depended on excluding the slave system from their states. While this fight against the extension of slave territory was smoldering in the West, new canals and railroads had been gradually destroying the complete dependence of the West on the southern market down the river and were creating strong economic ties between the Mississippi Valley and the northern coast states.

Wage-labor versus slavery was a deep underlying issue also between the eastern industrialists and the southern planters, but it had not developed to the point of fierce, open conflict of interest before the Civil War. The rising industrialists clashed more immediately with the South on the question of tariff and free trade. Manufacturers wanted tariffs to exclude foreign competition and maintain high prices. Southern planters, whose slave economy had held back the industrial development of the South, were almost entirely dependent on the North and Europe for manufactured goods. They were bitterly opposed to the tariff.

The Republican Party, which carried on the war against the South, had its roots in the fight to maintain the Union and to prevent the spread of slave territory, measures which would inevitably bring the breakdown of the slave system. It drew into a political alliance the free-soil West and the high-tariff manufacturing East. The new industrial capitalists became solidly Republican, but many of the merchant-bankers, whose trading and banking interests were still quite distinct from manufacturing, were pro-slavery free-trade Democrats. Some of them remained among the "copperheads," southern sympathizers throughout the war. Others turned eagerly to the sale at home and abroad of northern war bonds. Commanding the channels of foreign exchange and the gathering in of capital they made pretty profits from the sale of bonds. Their activities made Wall Street a national center for investment and speculation in government debt.

## *Industry in the Civil War and After*

The Civil War not only abolished the system of labor of the South but gave a tremendous impetus to the development of capitalist industry in the North. The first weeks of war disrupted old channels of trade and brought a short depression, but the war orders for arms, equipment, clothing and shoes soon set factories humming. Other phases of the war boom in the North and West are described also by Victor S. Clark in his *History of Manufactures in the United States:*

> While the civilian market was thus lessened in area by secession, it nevertheless grew rapidly within the temporarily curtailed territories under northern jurisdiction. Inflation and war profits stimulated trade.... Cut off for a time from its Mississippi outlet to tidewater, and from its market for provisions

in the cotton states, the West threw all its heavy traffic into the Great Lakes and railway channels to eastern ports. This was the culmination of a tendency that had been growing ever since the beginning of the canal period, forty years before; and it increased the demand for rolling stock and fresh-water cargo boats. High prices for farm produce at home and abroad encouraged the settlement of western lands, adding new territory to the domestic market with each season, while the scarcity of labor everywhere multiplied the call for farm machinery. Still further toward the setting sun prospectors and frontiersmen were developing a new empire, even in this period of national stress; and the recently discovered mines of the Rocky Mountains and the Pacific Coast were equipped by eastern foundries and machine shops. Simultaneously in the East the discovery of petroleum opened at a single stroke a new source of national and individual wealth and a new market for well supplies and containers.[2]

After the war, mining and manufacturing continued to expand rapidly. The iron ranges of Lake Superior were developed, copper mines were opened in Michigan, silver mining in the Far West was increased, the commercial production of Bessemer steel was begun. In ten years after the Civil War the output of pig iron was tripled. Between 1869 and 1889, in spite of the crisis of 1873 and the long depression years that followed, the number of wage-earners employed in manufacturing was more than doubled and the "value added by manufacture" to the materials used was multiplied more than threefold.

Along with the growth of manufacturing and mining went rapid increase in railroad mileage. A transcontinental line had come to be regarded as a military necessity during the Civil War, and the Union Pacific line was opened in 1869.

The building of railroads was tied up with land and most of the railroad capitalists up to the 80's were essentially promoters and land speculators. Their richest pickings came after the Civil War when more than 100,000,000 acres of public lands were handed over as a free bonus for companies opening new railroad lines.[3] The Northern Pacific received the largest single grant, with 47,000,000 acres.[4] Land grants offered an excuse for tremendous over-capitalization of the railroads, far more than any immediate profit on the sale of the land could support—even if much of the immediate profit had not been taken by crooked promoters who squeezed their corporations dry.

## *The Rôle of the Unsettled West*

Speculation has been characteristic of capitalism at every stage. In the United States, until the end of the 1880's, the immense tracts of unsettled land played the leading speculative rôle. But besides serving as a source of wealth for land-grabbing speculators, the vast unsettled West was in other ways also an important factor in shaping American capitalism after the Civil War.

Abundance of good western land led to a development of food crops and

cattle raising which, together with the cotton and tobacco of the South, gave the rising capitalist economy a valuable surplus of agricultural products greatly in demand in western Europe. At the same time, the unsettled areas and the extraordinarily rapid increase of population through immigration made possible the *extensive* expansion of industry to keep pace with the development of domestic markets. Also, the South had emerged from the Civil War with its beginnings of industry and its capital reserves completely destroyed. So while American capitalism was ripening and expanding to the stage of monopoly and the fusion of banking and industry which are characteristic of modern imperialism, it was peculiarly tardy in reaching out for colonial possessions.*

The temporarily exceptional opportunity for expansion on new territory within the United States prolonged the vitality of the middle class. Petty bourgeois political forces played a considerable rôle. They attempted to choke the growth of monopoly and at the same time tended to blur the political conflict between workers and capitalists.

Working class development was affected. Industrial wages in the North and West were above European standards because the abundance of new land and the very rapid expansion of industry and agriculture provided opportunity for a relatively large number of white workers to rise as individuals out of the working class into the capitalist class, either as industrial employers and executives, or promoters and speculators, or farmers. Many difficulties stood in their way. Land speculators clogged the road to the land, in spite of the free homestead policy of the federal government. As the unsettled frontier was pushed to the coast, it offered less and less an immediate opportunity of escape for the eastern wage-earner. But throughout the nineteenth century there was at least a narrowing outlet into business or farming which remained much more accessible to the eastern cities than it was to the industrial centers of Europe.

As wage-earners drifted west and climbed out of the working class, the capitalists replaced them, and built up a labor reserve which would beat down the scarcity price of labor power, by encouraging mass immigration with promises of better pay than any of the older countries

* Lenin in *Development of Capitalism in Russia* (published in 1899) analyzes the rôle of remote sparsely settled provinces within the territory of European Russia. He concludes: "It is sufficient for us to observe here that Russia is in a particularly favorable position compared with other capitalist countries owing to the abundance of free and accessible land for colonization in its outlying regions.... The deeper development of capitalism in old, long inhabited territories is retarded by the colonization of the outlying regions. The solution of the contradictions, which are a feature of capitalism and which capitalism gives rise to, is temporarily postponed by the fact that capitalism can very easily develop in breadth.... It goes without saying that *such* a retardation of the growth of capitalism is tantamount to preparing for an even greater and more extensive growth in the near future." *Selected Works* of V. I. Lenin (International Publishers), vol. I, pp. 379-380, including footnote.

allowed. White workers, as a whole, did have a somewhat higher material standard of living than wage-earners in capitalist Europe ever achieved.

But this American standard was merely a relative matter. Sharp contrasts between the workers and the capitalists have been present from the earliest colonial days and grew steadily sharper with the development of capitalism after the Civil War. And the American standard of living never even pretended to be adequate for the masses of unskilled workers. It did not touch the workers in the South. After slavery, Negroes remained on the land as wage-earners or as share-cropping tenants, or they drifted to southern cities where they were employed only for the heaviest or most casual jobs. The door to skilled trades was barely ajar for the Negro worker, and even more difficult was it for him to become a land-owning farmer or a petty capitalist employer. At the same time, the South came out of the Civil War with masses of poor whites whom the plantation system had barred from the fertile lands and who scratched a meager subsistence from the poorest soil. They constituted an immense reservoir of labor when capitalist industry came in to exploit them. Both Negroes and whites in the South have been held down at wage scales far below those prevailing in the North and the West.

But even in the industrial centers and the sparsely settled West, the American wages and a relatively wide opportunity to rise went along with raw and brutal exploitation. Hours were long. Many jobs were dangerous and employers took no responsibility for accidents, illness, or unemployment. Housing conditions were chronically bad, whether in cities where the "old families" extracted heavy rents for dark and filthy tenements, or in company towns of industrial plants, or in the mining "camps" that scarred the western mountains. The periodic crises of capitalism brought terrible destitution for the workers and at the same time reduced their possibilities of escape.

Every attempt of the workers to organize for their own protection was fought by the employers—with the aid of courts and, often, of armed forces. Employers made full use of differences in language, race and color to foster prejudice and keep the workers' forces divided. The workers' understanding of their situation was blurred also by the persistent dream of individual escape from the working class. Labor leaders who could be firm and militant in concrete struggles were influenced by petty capitalist ideas and by the utopian dreams of the agrarian movements. The workers carried on political fights for the right to strike and to organize labor unions, for universal manhood suffrage, for free public schools and for shorter working hours.

The workers showed repeatedly that they knew how to fight on an immediate issue and left a brave record of militant strikes and other labor activities. In the 80's and 90's when class lines were beginning to draw tighter with the vanishing of the frontier and the development of large corporations, labor unions became an urgent necessity for the workers. Out of the several groupings of that time, the craft union idea, with high dues for skilled workers and a definite barrier excluding the

masses of unskilled workers, prevailed on the whole over the beginnings of industrial unionism.

The unsettled West and the resulting conditions of labor scarcity and relatively high wages in the West and the North gave a sharp stimulus to the search for labor-saving machinery. This involved relatively large investment in so-called fixed capital and hastened the growth of large establishments and large corporations.

## *Increase in Large Establishments*

Technical progress in capitalist society has resulted from various factors, including the competitive fight. As each industrialist drove to widen his market, he would seek to underbid his competitors without loss of profits. Success in this has usually depended on his achieving some technical advance. In the long run technical progress has involved in most industries a steady trend toward mass production and an increase in large establishments. It has also involved a tremendous increase in constant capital and a relative decrease in variable capital.

This trend is important because it has furnished the material basis for the passing of the individual employer, the growth of corporations and the development of monopoly capitalism.

To illustrate the increasing size of manufacturing plants, the census of 1900 gave special data on sixteen industries of which the following four were most important in total numbers employed.

| | *Establishments* | *Average per establishment* | |
|---|---|---|---|
| | | *Wage-earners* | *Capital* |
| Boots and shoes (factory) | | | |
| 1880 | 1,959 | 57 | $21,947 |
| 1899 | 1,600 | 89 | 63,622 |
| Cotton goods | | | |
| 1870 | 956 | 142 | 147,182 |
| 1899 | 1,055 | 287 | 442,882 |
| Hosiery and knit goods | | | |
| 1870 | 248 | 60 | 44,078 |
| 1899 | 921 | 91 | 88,882 |
| Iron and steel | | | |
| 1870 | 726 | 103 | 161,523 |
| 1899 | 668 | 333 | 858,371 |

The same census (1900) reported 1,063 establishments (all manufacturing industries) employing 501 to 1,000 workers each, and 443 establishments employing over 1,000.

Throughout the period of imperialism the trend toward large factories and mass production has continued. In 1929, the number of establishments each employing over 1,000 workers was more than twice as large as it had been in 1899. And since 1909 (the first year for which the number of wage-earners in 1,000-worker plants is available) the numbers employed

in these establishments had jumped from 1,013,274 or 15% of the 1909 total, to 2,159,989 or 24% of the 1929 total.

After 1919 the displacement of workers by machines was pushed to such a degree that total manufacturing production was increased while the average number of wage-earners employed in manufacturing dropped from 9,000,059 in 1919 to 8,838,743 in 1929. This decline was especially marked in the largest plants and pulled the 1929 figures for plants employing over 1,000 workers each slightly below the peak of 1919.

But by all other available measurements of size—average horsepower installed, average value of products, and average value added by manufacture—the general trend toward large plants was more marked in the ten years after the World War than in the ten years before 1914 or during the war boom itself.*

| | *Increase* | | |
|---|---|---|---|
| | 1904-14 | 1919-29 | 1904-29 |
| Size of establishments: | % | % | % |
| Average number of workers | 4 | — | 13 |
| Average horsepower installed | 36 | 49 | 119 |
| Average product[a] | 17 | 66 | 105 |
| Average "value added"[a] | 12 | 88 | 119 |

[a] Dollar figures on which these percentages are based have been corrected for changing price levels. See Appendix A, p. 309.

One other set of figures completes the evidence of continuing concentration of output in large plants. We turn to the groups of mills and factories which produced at least $1,000,000 worth of products in 1919 and 1929. Prices were, of course, higher in 1919 than they were ten years later, so this classification in itself represents a larger physical output in 1929 when prices had fallen below their 1919 level. It is all the more significant to find an increase between 1919 and 1929 in the number of establishments in this group, in their percentage of the wage-earners employed, and in their share of the total product.

| | *Factories and mills producing $1,000,000 or more* | |
|---|---|---|
| | *1919* | *1929* |
| Establishments | | |
| number | 10,413 | 11,763 |
| per cent of total | 4.9 | 5.6 |
| Wage-earners | | |
| number | 5,172,712 | 5,148,100 |
| per cent of total | 57.5 | 58.2 |
| Per cent of total products | 68.2 | 69.2 |
| Per cent of value added by manufacture | 62.9 | 64.6 |

* This increase in large establishments and increasing concentration of production are, of course, distinct from the question of total industrial growth. From 1919 to 1929 the number of manufacturing establishments declined but their total horsepower and productive capacity increased, at a rate somewhat less than the rate of increase during the World War and the decade which preceded it.

While manufacturing establishments have been increasing in size, they have also been brought more and more into combinations in which a central management operates two or more plants. From 21,464 or 7.4% of all establishments in 1919, the number in these so-called "central office" groups rose to 26,286 or 12.5% of all establishments in 1929. A census study estimated that they employed "more than a third" of all manufacturing wage-earners in 1919. Ten years later the census reported that 48.4% of the manufacturing wage-earners were in such plants. Other important facts about the "central office" groups in 1919 were brought out in a special census study on *The Integration of Industrial Operation.*[5] For example, while the great majority of these combinations were small, operating less than 10 establishments, a few towered above the others, 247 of them each operated from 11 to 50 establishments and 18 of them each operated over 50. About two-thirds of the combines were turning out the same general line of products in their different establishments, but 1,784 (out of 4,813 central office groups analyzed) were classified as "complex" because the products of their different establishments represented two or more subdivisions of industry. These included 534 combines which were engaged in mining along with at least one kind of manufacturing. More than half (903) of these complex groups were turning out "successive products" representing different stages from raw materials to some definite type of finished goods.

### *Corporations*

Corporations were developed as a device for drawing into an enterprise capital owned by outsiders who took no continuous active part in management. A few corporations for banking, insurance, or manufacturing had been created before 1800. The first million-dollar manufacturing corporations were set up in New England textiles about 1830.[6] Then railroads, requiring large capital, were commonly incorporated.

After the Civil War, as industry was building larger plants and the more enterprising exploiters were expanding and merging and building towards monopoly control, the corporate form came into common use for manufacturing and mining.

Three factors have combined to push the development of corporations. (1) The growth of mass production with its increasing investment in plant and machinery remains the most important factor. So railroads, public utilities, and heavy manufacturing have been more completely dominated by corporations than light industry. Blast furnaces, steel works and rolling mills, petroleum refineries, automobile plants, and smelting and refining works are, for example, practically 100% corporation-owned. (2) The legal advantages of the corporate form, for the protection of the small capitalist's business property, have also played some role. In light industries, the corporation share in the total product has increased far more than the numbers of large establishments. But the increasing use

of the corporate form for small concerns is far less important than the (3) tremendous growth of big corporations, which is directly related to the growth of monopoly power and the decay of the independent petty capitalist.

Before we turn to the corporate giants, we should note certain basic figures showing the extent of the corporate form of organization. These include everything from the American Telephone and Telegraph Co. with its more than four billions of gross assets to the small tradesman or manufacturer who has incorporated a business with less than $10,000 of assets.

In 1899, roughly two-thirds of the total value of manufactured products was coming from corporations. Thirty years later, the corporation share in the total had risen to more than 92%. One-half (52%) of the manufacturing establishments in 1929 were still owned by individuals or partnerships, but these small, unincorporated concerns employed only 11% of the mill and factory wage-earners and turned out less than 8% of the total manufactured product.

In mining, the percentage of total volume handled by corporations was 96% in 1930; in wholesale trade, 74%; in retail trade, 48%. In the construction industry, 36% of the establishments were owned by corporations, which means of course that corporations handled considerably more than 36% of the total volume of business. Agriculture has had the slowest development with less than 1% of the farms owned by corporations, but on truck farms, stock ranches, and fruit farms, "manager" farms (including both corporations and wealthy absentee owners) were from 2% to 7% of the total in 1930.

Including agriculture, trade, construction and miscellaneous business along with manufacturing, mining, railroads and public utilities, it has been estimated that "at least 78 per cent and probably a larger proportion of American business wealth is corporate wealth." [7] Side by side with the growth of corporations, large and small, there has persisted a considerable area of small-scale business, functioning in many fields of industry and still producing the great majority of farm products.

## *The Large Non-Banking Corporations*

From 1909 to 1929 the estimated wealth of all non-banking corporations increased about 108%, while that of the largest 200 among them increased about 211%.[8] On January 1, 1930, these 200 corporations had "nearly half of all non-banking corporate wealth, while the remaining half was owned by the more than 300,000 smaller companies." "... rough calculation would indicate that they (the largest two hundred.—*A.R.*) controlled 38% or more of all business wealth" and "roughly 22 per cent of the total wealth of the country." [9]

Many of these largest 200 non-banking corporations are direct suc-

cessors of the industrial "trusts" organized in the days when absolute monopoly was openly and frankly sought as the source of super-profits. The earliest industrial trusts—the Standard Oil Company and perhaps a dozen others—were set up before 1890. They roused the hostility of small business men and farmers who attempted to check their growth with the Sherman anti-trust act of 1890. But this law against "monopolies" and "restraint of trade" had little effect until President Theodore Roosevelt more than ten years later found it politically expedient to play up to the small capitalists with a few vigorous prosecutions under the act. John Moody, in *The Truth about the Trusts,* pointed out in 1904 that the era of great industrial trusts really began in 1898, eight years after the Sherman anti-trust act was passed. He listed (as of 1904) 318 industrial trusts (exclusive of railroads and utilities) which represented consolidations involving 5,288 separate plants. Three-fourths of these trusts had been incorporated after 1897. Of the more important 92 companies which Moody describes in some detail, 78 controlled 50% or more of the industry in which they chiefly operated, and 26 of these 78 controlled at least 80% of their own industry.

Two of the leading trusts—Standard Oil Co. and American Tobacco Co.—were broken up by the Supreme Court in 1911 into groups of smaller corporations, each group starting its new career with identical stockholders. Then gradually a new wave of mergers set in. From 1919 to 1928 inclusive, at least 4,135 concerns were merged and 3,114 concerns were acquired by others, according to a tabulation relating only to manufacturing and mining.[10] These included, of course, mergers among the very large non-banking corporations. During the years 1920 to 1929 inclusive, 49 of the companies included on the list of the largest 200 in 1919 (or some later year) were merged with or acquired by another corporation on the list.[11] Since 1929, additional mergers in the 200-group have substituted the Consolidated Oil Corp. for four large companies, and the Socony-Vacuum Oil Co., Inc., for two companies.*

Since 1904 of course the total volume of business has greatly increased, and although the big corporations are much larger than they were, many of them control a smaller percentage of the products in their own special industry than the leading trusts had controlled thirty years

* Practically all of the large corporations and many smaller concerns are made up of clusters of companies combined as subsidiaries of a top company. In 1930, for example, 2,846 corporations made consolidated income tax returns, each including three or more subsidiaries. Among these were 14 corporations reporting from 106 to 199 subsidiaries and four reporting from 200 to 291 subsidiaries. The use of subsidiaries has been pushed to its most complex development in the field of public utilities, but it appears in every type of business. It is deliberately cultivated because it greatly increases the opportunities for manipulation and for concealment of profits and evasion of taxes. So the same federal income tax report (for 1930) which showed these immense aggregations of subsidiary companies also showed that 4,645 companies with only one subsidiary had filed consolidated returns.

ago. But the intercorporate connections have been strengthened. Monopoly power has persisted and increased.

Railroads, which represent on the whole larger aggregations of capital than manufacturing or mining companies, passed also through a special period of reorganization during the crisis and depression of the 1890's. The systems of the present time have a much larger capital but are not essentially different from those described by Moody in 1904. Such giant public utility groups as appear in the list of the largest 200 corporations are, in the main, a post-war development. Moody, writing in 1904, recognized utility companies as franchise monopolies, but at that time the electric light and power companies and the gas companies were mostly separate corporations operating in their home cities or in closely united areas. The post-war pyramids of utility holding companies, combining into so-called "systems" innumerable operating units scattered and interwoven in all parts of the country, have enormously increased the invested capital and the corporate consolidation in the utility monopolies.

The largest 200 non-banking corporations were made up of the following groups on January 1, 1932. (For the full list, see Appendix B, page 309.)

| | *Number of corporations* | *Gross assets (less depreciation)* |
|---|---|---|
| Railroads and related transportation | 42 | $25,266,955,000 |
| Public utilities | | |
| Communications | 5 | 5,389,519,000 |
| Electricity and gas | 39 | 21,011,811,000 |
| Traction | 8 | 1,418,180,000 |
| Manufacturing and mining * | | |
| Automobiles | 4 | 2,333,144,000 |
| Chemicals (except petroleum) | 8 | 1,887,758,000 |
| Coal | 5 | 639,082,000 |
| Food and tobacco | 14 | 2,635,619,000 |
| Glass | 1 | 96,538,000 |
| Leather | 1 | 96,195,000 |
| Lumber | 1 | 93,870,000 |
| Metal products (except automobiles) | 13 | 2,302,243,000 |
| Metals | 19 | 6,367,059,000 |
| Paper | 4 | 1,098,454,000 |
| Petroleum | 16 | 7,467,044,000 |
| Rubber | 4 | 670,849,000 |
| Real estate and construction | 1 | 106,119,000 |
| Amusement | 6 | 1,229,306,000 |
| Retail trade | 9 | 1,327,905,000 |
| Total for the group | 200 | $81,437,650,000 |

* Some manufacturing and mining are carried on by large corporations in other classifications.

Industries vary in the extent to which large corporations have been developed. No textile company, for example, appears in this list. Only

one lumber company is included, because the dominant Weyerhaeuser lumber interests are operated through a group of relatively small and apparently unrelated companies. The lumber interests of the International Paper Co. are included in the "paper" group. In several other industries a few corporations may be dominant which are too small to come within a list of the largest 200 in the country.

But the corporations listed have practically exclusive control in railroads, communications, electric utilities. They are dominant in automobiles and rubber tires, heavy electrical equipment, metals, petroleum refining, and tobacco. They are supplemented by less than a dozen smaller but important concerns in basic chemicals, anthracite coal, meat-packing and sugar, leather, paper and motion-pictures.

Of special interest are the billion-dollar giants among the non-banking corporations. The first billion-dollar combine was the U. S. Steel Corp., organized in 1901. On January 1, 1932, there were 18 non-banking corporations in the United States which had each more than a billion dollars of gross assets. The American Telephone and Telegraph Co. which heads the list is the largest privately owned industrial corporation in the world.

BILLION-DOLLAR NON-BANKING CORPORATIONS

| | *Gross Assets Jan. 1, 1932* [a] |
|---|---|
| American Telephone & Telegraph Co. | $4,235,749,000 |
| Pennsylvania Railroad Co. | 2,781,800,000 [b] |
| United States Steel Corp. | 2,279,802,000 |
| Southern Pacific Co. | 2,212,265,000 |
| New York Central R. R. Co. | 2,200,900,000 [b] |
| Standard Oil Co. of New Jersey | 1,827,010,000 |
| Alleghany Corp.[c] (railroads) | 1,813,600,000 [b] |
| General Motors Corp. | 1,313,920,000 [b] |
| Consolidated Gas Co. of New York | 1,312,255,000 |
| Electric Bond & Share Co. | 1,231,641,000 [b] |
| Baltimore & Ohio R.R. Co. | 1,222,700,000 [b] |
| Cities Service Co. (oil and utilities) | 1,194,450,000 |
| United States Electric Power Corp. | 1,169,720,000 |
| Atchison, Topeka & Santa Fe Railway Co. | 1,120,325,000 |
| Middle West Utilities Co.[c] | 1,120,100,000 [b] |
| Commonwealth & Southern Corp. (utilities) | 1,112,766,000 |
| Union Pacific R.R. Co. | 1,111,208,000 |
| Socony-Vacuum Corp. | 1,038,601,000 |

[a] Gross assets less depreciation, as of January 1, 1932, or nearest date for which balance sheet is available.

[b] Estimated figure including subsidiaries in which parent corporation owns more than 50% of stock but which are not included in "consolidated balance sheet" of parent corporation.

[c] In bankruptcy.

### *Growth of Banking*

The Civil War and the quarter-century of expanding industrial capitalism which followed brought a parallel development of banking. This led up to the fusion of banking capital and industrial capital, with its compact centralization of power in the hands of a small inner ring of financiers, which took clearly recognized shape in the 1890's and was the most important aspect of the transition from industrial capitalism to imperialism.

Banking, the business of manipulating money capital, first developed among the merchant bankers of the earliest stages of capitalism. Beside them in the United States, and sometimes overlapping with them, were the early financiers of land and railroad speculation, who systematically and corruptly drained the public treasury and the public lands for their own enrichment. Much of the private capital that went into the founding of western banks after the Civil War was accumulated in this fashion and a few of these early railroad buccaneers helped to develop Wall Street as the financial center of the country. But the central core of Wall Street power was shaped by the successors of the old merchant-banking houses which were advanced to a new stage of development by their share in the financing of the United States government during the Civil War and the period of reconstruction that followed.

Much of the two billions of interest-bearing debt incurred by the federal government during the Civil War was underwritten by private bankers and sold through their correspondents in all parts of the Union and on the continent of Europe.

> The sale of the Civil War debt was not only the one great piece of business in securities in the '60's—it was the first in America. It really created the trade of wholesale merchandising of securities in this country....
>
> The start of the Government's billion and a half refunding operation in 1871 marked one of the most interesting and important periods in the financial history of the country. For the first time in America, that great instrument of modern finance, the underwriting syndicate of security merchants (or private bankers) was to come into use....
>
> Selling a security with a constantly rising market, their profits were many millions. At their start the credit of the United States was on a six and one half per cent basis; when they closed it was at four per cent and better. They had established a new financial oligarchy in the United States. August Belmont as the representative of the Rothschilds, was much the largest taker of bonds. But no element was so active and aggressive as the Drexel-Morgans.[12]

Through these operations Wall Street became "a national center... for the investment and speculation in government debt," but "The day of a general national market for corporate securities was still a great way off."[13] The banking oligarchy ruled in their own field, but in the 70's they were still quite distinct from the industrial capitalists.

Building up and manipulation of government debt played directly into

the hands of the bankers as traders in capital and was praised by the rising capitalist class as a great service to society (meaning, of course, to themselves). Government bonds, municipal bonds, county bonds, etc.—the whole top-heavy structure of public debt—offered profitable opportunities to the bankers, who underwrite public bond issues, and the most solid investment for capital. They also placed the bankers in a strategic position for controlling government policies, although of course the financiers' control of government has a much broader base than this.

The development of finance capital came later, largely through the banker's function as an ally of corporations, but the mechanism of investment banking was perfected during the government bond operations of the 60's and early 70's.

Foundations for commercial banking were also laid in connection with the Civil War debt. Commercial banking is the broad term for trading in short-term credit as distinct from the trade in long-term capital, but commercial banks not only carry government bonds among their assets but have always done a considerable business in selling them. The National Bank Act of 1863 was passed largely as an emergency measure to provide through a new commercial banking system another outlet for government bonds. Actually, it created for the first time in the United States a standardized credit apparatus with a standardized bank note currency.

Marx in the third volume of *Capital*, written long before the 1890's, had analyzed the basis of the monopoly power of the bankers:

> ... the care of reserve funds of business men, the technical operations of receiving and issuing money, of international payments, and thus of the bullion trade, are concentrated in the hands of the money traders. Borrowing and lending money becomes their particular business.... Generally speaking, the banking business on this side consists of concentrating the loanable money-capital in the banker's hands in large masses, so that in place of the individual money lender the bankers face the industrial capitalists and commercial capitalists in the capacity of representatives of all money lenders. They become the general managers of the money-capital. On the other hand, they concentrate the borrowers against all lenders, and borrow for the entire world of commerce. A bank represents on one hand the centralization of money-capital, of the lenders, and on the other the centralization of the borrowers.[14]

Increasing complexity of processes combining into a finished product materials assembled from every corner of the world and increased dependence on distant markets for final payment called forth the fullest use of the credit apparatus. The commercial banker became the close ally of the industrial capitalist, with a full knowledge of the industrialist's affairs and the power to assist or to destroy a business concern.

At the same time the growth of corporations developed the other phase of banking: investment banking, or the trade in long-term capital. Large privately owned corporations represent an aggregation of capital owned by a considerable number of persons. They could not be organized

and expanded without the assistance of the investment banker who would underwrite stock or an issue of bonds while he and his associates found among the scattered owners of capital a market for the new securities.*

Morgan became the leading railroad banker in 1879 when he put over a large deal in New York Central stock for the Vanderbilt interests. In the crisis of 1893 and the following years of depression, roads representing at least one-third of the railroad capital in the United States went into bankruptcy, and the Wall Street bankers, including Morgan as the strongest figure, seized upon the opportunity to gain a permanent hold on the railroads.

"The control of so many billions of dollars in railroad property by so few men ... came about by a simple and almost invariable formula: The progressive bankruptcy of American railroads, under fierce competition, threw them into the hands of security merchants in New York; these men wiped out competition between them, tied them up into monopolies, and, with their allies and dependents, held those monopolies under their own control." [15]

Bankers—traders in capital—were active in the development of the industrial trusts. Mergers and the prospects of monopoly profits gave opportunity for large new issues, and every new issue meant a sure immediate profit to the investment banker. Morgan entered this field when he promoted the General Electric Co. in 1892. Then in the boom that brought the full blossoming period of the trusts after the Spanish War, Morgan organized the U. S. Steel Corp. in 1901, and the following year the International Harvester Co. and the International Mercantile Marine Co.

Meantime the Standard Oil Co. capitalists (especially William G. Rockefeller, brother of the first John D., and their crony and associate H. H. Rogers) had become heavily interested in the National City Bank (about 1891) and with their Wall Street allies went in also for the profits from promoting mergers in copper and other industries unrelated to petroleum.

Bankers who promoted mergers arranged as a matter of course to keep a strong voice in the management.

In the 90's when the banking world began its more active participation in corporation management and industrialists were stepping over into banking, Wall Street also set about the process of knitting the different phases of banking into a still closer unity. The House of Morgan began a systematic extension of its control over commercial banks, savings banks, and insurance companies. Trust companies were pushed to a much larger development, since their activities as "trustees" for capital made them invaluable allies for investment houses.

Trade in capital and credit more and more took precedence over pro-

* Few indeed have been the closely owned concerns like the Standard Oil Co. whose profits were so large and so carefully hoarded that they could throughout their earlier years expand business and absorb competitors without calling on the bankers for help in raising additional capital.

duction and distribution of goods as the most profitable and "honorable" activity. An increasing share of the total surplus value produced by the workers was drawn off as profit for the various kinds of bankers. In capitalist thinking, the "market" came to mean simply the trend of prices and sales for stocks and bonds. By 1929, over 40% of all corporation assets were reported by the "finance" group including "banking, insurance, real estate and holding companies, stock and bond brokers, etc." [16]

How these banking interests are concentrated and control over them is centralized in a relatively small group will be discussed in later chapters.

## *The Foundations of Imperialism*

The turn of the century marked the opening of a new period in American capitalism, with the aggressive entrance of the United States in world affairs and the beginning of its imperialist power. This new political phase was so essentially and inescapably bound up with the new stage of development within the United States that in approaching it we must have clearly in mind the chief landmarks in the American economic scene at that time.

Public lands had been exhausted. The unsettled West passed into history about 1890. This meant that the working class in the United States had lost its peculiarly American opportunity for individual advancement.

Industry had been so far developed that in 1894 manufactured products permanently displaced raw materials and raw foodstuffs as the chief exports from the United States, and beginning with 1898 more "finished manufactures" were exported than imported. The United States was no longer primarily a source of food supplies and raw materials for the capitalist countries of Europe but an increasingly active competitor with them in the world market for industrial products.

Large factories and large corporations were dominating many branches of industry. Industrial mergers were actively promoted by bankers and financiers, not for the sake of greater technical efficiency but for the immediate profits from issuing securities and the coming profits of monopoly. Most of the basic railroad mileage had been completed. Railroad corporations, the telegraph, utilities in the principal cities, and much of manufacturing in heavy industry were held in the monopoly grip of a small number of financiers.

The capitalist class had accumulated an abundance of loan capital seeking investment and profit. This capital passed through the hands of the bankers,—directly through their control of bank deposits, trust funds and insurance company assets, and indirectly through control of the mechanism for floating new security issues. The fusion of banking and industrial capital was thus a material fact and gave the basis for the new fusion of interest and the criss-cross of directorships, with bankers of all kinds on the boards of industrial corporations and industrialists on the boards of banks and insurance companies.

Earlier dependence on foreign capital for the expansion of American railroads and industrial enterprises had been broken down by the accumulation of large capital reserves in the United States. When the frontier was passing into history, capital owned in the United States began to seek investment abroad. In the 90's, a few American corporations already had factories in other countries. American capital was developing sugar in the Hawaiian Islands and the West Indies. American corporations were seeking foreign mineral resources. At the end of the 90's foreign government bonds were sold in the United States by the House of Morgan in connection with the refunding of the Mexican debt (1899) and the financing of Great Britain's South African War (1900 and 1901). Of course until the World War shifted the balance of economic power, American capitalists were still owing abroad more than they were lending and investing abroad, but the turn of the century was marked by a definite increase in Wall Street's concern for foreign investment outlets.

It was natural, therefore, that this period also saw the United States begin to acquire colonies and naval bases and build the Panama Canal. But areas not yet appropriated by a European power were exceedingly limited, for Great Britain since 1869, France since 1880, and Germany since 1890 had been driving for colonial possessions.

As in the United States, capitalism in these countries also had been passing from the stage of industrial capital and free competition to the stage of finance capital and monopoly. They lacked at home such vast expanses of unsettled territory as had given the United States an exceptional domestic outlet for capital investment and production. Various minerals and tropical products had been of increasing industrial importance; heavy industry could produce more steel rails and machinery than capitalism at home could absorb; and capitalists had long since learned that in "backward" territory they could extract higher profits than in the more developed industry at home. But they were not content with high profits from direct exploitation of "backward" peoples with a low standard of living; they wanted the extra super-profits of special inside favors from a submissive colonial government. And as each capitalist nation developed toward the fusion of banking and industrial capital and the concentration of control by a handful of financiers, it was also feeling more sharply the competition with other developing capitalist nations and the need for extending over the largest possible territory its area of special privilege and monopoly power.

When the United States found its expanding domestic outlet closed by the passing of the frontier, monopoly capitalism in the United States naturally followed the same policy of expansion, the same quest for special privileges abroad. But most of Southern Asia and much of Africa had been divided among the European empires. Important parts of "independent" China had been appropriated as "spheres of influence." The Near East was the subject of constant diplomatic and economic wrangling, with Great Britain determined to prevent Germany, France or Russia from gaining a foothold.

Only South America and the countries around the Caribbean remained as undeveloped territory relatively free of open domination by the great capitalist powers. Here the United States had stood guard since the 1820's when President Monroe formulated the "doctrine" against European intervention on the American continents. In spite of this, Spain, Great Britain, Holland, France and Denmark had retained a foothold in the Caribbean islands. And British and German capital, and to a lesser degree Dutch and French capital, had been poured into the South American countries, especially those bordering on the Atlantic Ocean. The three Guianas were genuine colonies and at least in Argentina and the little republic of Uruguay there existed a semi-colonial domination by Great Britain.

When the United States stepped forth in 1898 as an imperialist power, the imperialist stage of world capitalism was well under way.

Five essential features of modern capitalist imperialism are defined by Lenin in his *Imperialism, the Highest Stage of Capitalism* (written in 1916). These five features did not develop evenly and simultaneously throughout the capitalist world, but they are all organically interrelated.

1. The concentration of production and capital, developed to such a high stage that it has created monopolies which play a decisive role in economic life.

2. The merging of bank capital with industrial capital and the creation, on the basis of this "finance capital," of a financial oligarchy.

3. The export of capital, as distinguished from the export of commodities, becomes of particularly great importance.

4. International monopoly combines of capitalists are formed which divide up the world.

5. The territorial division of the world by the greatest capitalist powers is completed.[17]

Because of its unique position on an unsettled continent, American capitalism entered tardily on the export of capital and participation in international monopoly combines. It began its drive for colonies when the territorial division of the world was almost completed and at least four other empires were attempting to rival the power of Great Britain. Its first moves involved a war with the weakened imperial Spain. Then the World War gave the United States its golden opportunity. On the weakening of the large European empires and their needs during the World War and years which followed, Wall Street built the greatest financial and political power in the capitalist world.

But the rapid advance of the American empire was essentially unstable. Sharp inner contradictions within American capitalism; the maturing of contradictions within world capitalist economy; conflicts between the expanding Wall Street interests and European and Japanese imperialisms; and the economic and political effects of the successful workers' revolution in the Soviet Union were among the factors leading American post-war "prosperity" toward economic crisis.

In a later section of the book we shall return to analyze the general capitalist crisis, the economic crisis, and the present trends, both economic and political, among the capitalists and the workers in the United States. But first we must present the main body of material on the Wall Street rulers and their methods of control over industry and government.

## CHAPTER II

# THE HOUSE OF MORGAN

The present J. P. Morgan is son of the first J. P. Morgan and grandson of Junius Spencer Morgan, the first banker in the family. This J. S. Morgan was a well-to-do youth of Hartford, Connecticut, who after several years of trading in New York and Boston went to London in 1853 to become a partner in Peabody & Company. This was an American merchant-banking firm which had developed in successful competition with the Rothschilds and Barings for the business of exchanging pounds and dollars and selling American bonds to British capitalists. When George Peabody retired at the end of 1863, the firm became J. S. Morgan & Co. For three generations, the Morgan family has headed this important London house, which now operates as Morgan, Grenfell & Co., Ltd.

J. P. Morgan the first was helped by his millionaire father in London to get a start in the banking world in New York just before the Civil War. Thanks to his connection with the London house, the young J. P. made rapid progress and in 1871 he was able to make an alliance with Drexel & Co., one of the leading private banking houses in the United States. From the merger with Drexel, until 1935, the House of Morgan consisted of four firms: three private partnerships which are to-day known as J. P. Morgan & Co., New York; Drexel & Co., Philadelphia; and Morgan et Cie., Paris; and a fourth division, Morgan, Grenfell & Co., Ltd., London, which is a private limited company. A fifth firm, created in September, 1935, is a private corporation, Morgan, Stanley & Co., Inc., of New York.

Long before the death of J. S. Morgan in 1890, control of the House had passed to his son, the first J. P. Morgan, and the New York office at 23 Wall Street had become the central headquarters. After the setting up of Morgan, Stanley & Co., the old New York firm included J. P. Morgan and 16 other partners. This firm or its partners participate in the Philadelphia, London and Paris firms, but each of the auxiliary firms has also a few members of its own who have no share in the New York firm. Individual partners in J. P. Morgan & Co. own preferred stock (non-voting) in the new Morgan, Stanley & Co., Inc. Its common stock is held by seven executives, including Henry S. Morgan, son of the present J. P. Morgan, who have all been partners or division managers in J. P. Morgan & Co. or in Drexel & Co. (For list of Morgan partners and executives of new company, see Appendix C, p. 316.)

Like other bankers, the Morgan firm has grown rich and powerful by the manipulating of other men's capital. From the great reservoir of surplus value created by the workers, bankers draw profits not only on capital they own themselves, but also on great sums owned by other capitalists. The Morgan business has several phases, of which four have been the most important.

(1) It gathers in deposits from corporations and wealthy individuals and acts as paying agent for corporations when dividends and bond interest are due or bond principal is to be liquidated. Deposits place at the constant disposal of the firm several hundred millions of dollars: $562,407,000 on December 31, 1927, and $340,048,000 on December 31, 1932, according to statements given at the Senate hearings in Washington, in May, 1933. Only a small part of these deposits is kept in cash. Part of the total is invested in bonds and stocks; much of it is loaned. All of it serves to provide profits for the firm.

(2) Even twenty years ago, the Morgan firm was known as "a large lender of money on the New York Stock Exchange."[1] During the boom before the crash of 1929, the Morgan call loans (i.e. to brokers and speculators) rose to more than $100,000,000.[2]

(3) As international bankers, the Morgan firm also handles considerable amounts of foreign exchange. Such dealings may be especially profitable when currencies are unsettled and rates are changing from day to day.

(4) Most distinctive has been the Morgan development as an investment banker and this has given the solid basis for the Morgan power. Corporations and investment bankers have grown into a closely interlocked unity—the fusion of banking and industrial capital of which Lenin wrote in his book on imperialism. But the business of the investment banker remains as a distinct function in capitalist society, and the banker holds a strategic position for influencing and even controlling billions of corporation wealth in which his own actual ownership is relatively small.

The Morgan firms have constituted without question the leading investment banking house in the entire capitalist world. Their actual volume of business has been enormous. They reported to the Pujo Committee in 1913 that during the 11 years from 1902 to 1912, inclusive, they had publicly offered about $1,914,226,000 of securities, exclusive of municipal bonds and companies not engaged in interstate commerce. Twenty years later, a Senate investigation brought out the fact that over six billion dollars of bonds and stocks had been publicly "offered" by J. P. Morgan & Co., from January 1, 1919, to May, 1933. These figures do not include the business of Drexel & Co. or that of the London and Paris houses.

| | |
|---|---|
| Foreign bonds | $2,232,757,000 |
| Railroad bonds (including holding companies) | 1,978,639,000 |
| Utility bonds (including holding companies) | 1,074,750,000 |

| | |
|---|---|
| Industrial companies (bonds and preferred stock) .......... | 578,298,000 |
| Municipal bonds .................................... | 160,000,000 |
| | $6,024,444,000 |

SOURCE: Hearings on Stock Exchange Practices before the Committee on Banking and Currency, U. S. Senate 73:1, on S. Res. 84 (72nd Congress) and S. Res. 56 (73rd Congress).

Also, we know from figures compiled by the *Wall Street Journal*[3] that the Morgan and Drexel firms were syndicate heads for selling about $2,200,000,000 of new bond issues from 1927 to 1932. This was just under 10% of all new bond issues publicly offered in the United States during those six years. Of course, the Morgan power in investment banking is greatly extended beyond the dealings of the Morgan and Drexel firms themselves.

During the banking crisis of 1933, a Banking Act was passed which required, among other things, complete separation of investment banking from the business of carrying deposits and making short-term loans. The Morgan firms in New York and Philadelphia closed their investment banking business—since the placing of new capital and the issuing of new corporate securities had been reduced by the crisis almost to the vanishing point—and carried on only a commercial banking and foreign exchange business. They continued to act as trustees or fiscal agents for corporations and foreign governments. In September, 1935, five partners and two division managers withdrew and set up a new firm, Morgan, Stanley & Co., Inc., for investment banking.

## *Morgan, a Pillar of Imperialist Capitalism*

The growth of the House of Morgan has been intertwined with the growth of the two great capitalist empires, Great Britain and the United States. American industry throughout its early years of rapid expansion was built largely with capital borrowed from abroad, while by the middle of the nineteenth century a stream of British capital had begun to flow out over colonies and dominions and other "undeveloped" countries. Much of this was channeled to the United States by the Morgan firm in London. Until the World War this incoming stream of British capital—buying American bonds through the Morgan firm—was far more important than the outgoing stream of American capital buying foreign bonds.

Before 1871 Morgan had sold in the United States a Peruvian government bond issue of $2,000,000,[4] but throughout the nineteenth century such ventures were few and incidental. Even in 1899, when Morgan undertook a $110,000,000 Mexican loan for the readjustment of the Mexican government debt, he did not try to sell all the bonds in the United States, but placed large blocks of them in Germany and Great Britain. The next year, however, when England needed money for the Boer War Morgan headed a banking syndicate for the sale of British bonds in the

United States. Within less than fifteen months something over $140,000,000 of British bonds—from three successive loans—were sold to American investors.[5]

Between 1900 and 1914 Morgan took an important part in carrying United States capital into several Latin American countries, especially Chile, Honduras, Bolivia, and Argentina.[6] The London House had had a strong hold in Argentina since the crisis of 1890, but Morgan did not float Argentine bonds in the United States until 1909.

As Morgan's selling of American securities abroad (that is, the importing of foreign capital) was increasingly supplemented by the selling of foreign securities in the United States (that is, the exporting of American capital) his political interests seem to have changed. At the time of the Venezuela boundary dispute with British Guiana in 1895 (see below, page 267), smooth relations with Great Britain and the money markets of Europe seemed of paramount importance. In Cleveland's militant gesture, Morgan is said to have seen "a threatened disaster that will put an end to our borrowing."[7] The Monroe Doctrine to which Cleveland appealed against any increase of British territory in South America apparently seemed far less important than the business of selling American securities to British investors.

Less than fifteen years later the tide had begun to turn. Wall Street was looking toward a future of expanding foreign investment of American capital. Morgan took up the demand for the Open Door in China (see below, page 274), although this China policy was directly opposed to the interests of the British capitalists. Not that Morgan broke with his British interests; that same year (1909) he drew into his British firm a member of the Grenfell family which had for years been guiding British capital into Argentina and Brazil. And Morgan's British interests are still important. But with the ripening of American capitalism to the imperialist stage, Morgan's American interests took precedence over British interests when the two clashed in China.

Already in 1898, Morgan had been for political expansion of the United States provided British interests were not threatened. He backed the Spanish-American War although he apparently had at that time no direct interest in the Philippines and only an indirect interest in Cuba through a small minority holding in the National City Bank. In the long canal fight he had backed the French Panama Canal Co. and received $400,000 for lending his name to a propaganda committee.[8] When the French company went bankrupt, Morgan cooked up a scheme to organize a private $200,000,000 American syndicate and build the canal, but this was not approved by McKinley.[9] The next year, 1902, the United States government bought the "rights" of the old Panama Canal Co. of France. When the "independence" of Panama cleared the way for the United States to build a canal, Morgan's firm immediately became fiscal agent in the United States for the new little republic.[10]

## *The House Grows in Crisis and War*

For the first J. P. Morgan the panic year, 1907, was the high point of power. After the panic of 1873 bankrupted Jay Cooke, the Morgan firms won recognition as the leading bankers in the United States. Since the 1880's Morgan had been increasing his holdings and his power in American railroads. In 1892 he had taken his first big step into other industries by participating in the organization of General Electric Co. Before 1900 he had gone into steel, and in 1901 he had set up the U. S. Steel Corporation, the first billion-dollar company in the world. Shortly afterwards he put through two other important mergers, the International Mercantile Marine Co., which attempted to dominate Atlantic shipping, and the International Harvester Co., which has made a brilliant record of profits and growth.

But Rockefeller had refused to bend to the Morgan will and E. H. Harriman had for years put up a clever and aggressive fight for railroad power. Other upstarts were worrying the "Master Mind of Wall Street." The crisis of 1907 put them in their places. Several rivals were crushed in the panic, some said deliberately crushed by Morgan who could have saved them but refused to extend financial aid. During the crisis Rockefeller and E. H. Harriman joined with Morgan's faithful cohorts in accepting Morgan leadership. When the storm blew over, the struggle for power was renewed, but Morgan's position had been permanently strengthened.

In 1912, the Morgan firm was "investigated" by the Pujo Committee (of the House of Representatives). Very little was uncovered that was not already a matter of public record for those who might choose to assemble the facts, but the committee summary gave rather startling evidence of the extent of Morgan connections within American banking and industry. In the United States the Morgan firm was at that time directly represented in 12 banks and three insurance companies. At least 11 major railroad systems and the Pullman Co., and telephone, telegraph, Adams Express Co., and the International Mercantile Marine were directly linked to the Morgan firm. Besides U. S. Steel Corp. and the Pullman Co., at least five other major manufacturing companies and several smaller companies included a Morgan partner among their directors. In other public utilities Morgan had scattering interests, including Philadelphia Rapid Transit, Public Service Corp. of New Jersey, Niagara Falls Power Co., J. G. White & Co., Inc., and two companies in Latin America.

By comparison with the Morgan power to-day these interests of 1912 seem limited and their $10,313,000,000 of total assets seem small.* But Morgan was already the dominant power not only in American banking, but in railroads, in telephone, and in steel and electrical manufacturing. He had taken the first steps toward a utility empire in Central America.

* This figure includes only corporations on which a Morgan partner was director. It is based on total assets less depreciation.

The old J. P. died in 1913,—too soon to see the firm's blossoming in the fertile soil of the World War and the post-war financial chaos. The war brought tremendous activity in the United States and the Morgan firm profited at every turn. Between 1914 and 1919 foreign owners of some three billion dollars worth of American stocks and bonds sold them to American capitalists. At least $1,500,000,000 and probably more was loaned to the Allied governments by American capitalists,—apart from the U. S. government loans. Much of this business was done through J. P. Morgan & Co.

In January, 1915, the British government—at the suggestion of a Morgan partner—made the firm its purchasing agent in the United States and the French government followed suit in May of the same year. Their purchases of food and war supplies through the Morgan agency ultimately totaled three billion dollars. The war-time profits of corporations controlled by Morgan or clearly under Morgan influence show that the firm made the most of this opportunity to help themselves and their friends. The liberal writer, Amos Pinchot, says of the U. S. Steel Corp.:

> ...By 1917 its net earnings rose to just under half a billion, *largely as the result of cold-blooded extortion in the sale of war supplies to the French and English governments for which J. P. Morgan and Company was fiscal agent.*[11] (Italics mine.—*A. R.*)

The charge that the Morgan House helped bring the United States into the war is most annoying to the Morgan partners. How Thomas W. Lamont's attempt to picture the firm as calmly aloof in Olympian retirement while the United States was being swung into line for war is contradicted by some of his own statements and by other evidence we shall discuss in a later chapter.

## *The Morgan Domain To-day*

Since the World War the House of Morgan has continued to expand its interests and increase its power. The $2,233,000,000 of foreign bonds sold in this country by the Morgan firm from January 1, 1919, to May, 1933, represented about one-sixth of the total foreign issues bought by American capitalists during that period. This Morgan share was of great strategic importance. It included loans to the chief European governments. Financially the Morgan bond issues were the best of the post-war issues: up to May, 1933, none of these bonds had yet been defaulted.[12] Among the countries for which the Morgan firm has been banker in the United States are France, Belgium, Germany, Italy, Great Britain, Switzerland, Spain and Austria; Argentina, Cuba, Mexico, Australia and China.

Another and very important phase of Morgan's growing world power is the great increase in foreign holdings of American corporations. For example, Morgan dominated companies operate copper mines in Canada

and Latin America and have shares in African copper mines. (See Chapter XI.) General Motors (Morgan and duPont) has auto factories in Canada and Germany, and 18 assembly plants in 14 countries, including India, Japan and South Africa. Pullman, Inc., has railroad car shops in France and Brazil. The Morgan world-wide electrical interests are described in a later chapter.

Through its London firm, the House of Morgan still has a solid foothold in British imperial finance. The leading British partner, E. C. Grenfell, has for years represented the financial district of London in the House of Commons and is a director of the Bank of England. Another British partner, Charles F. Whigham, is a member of the London committee of the Hongkong and Shanghai Banking Corp., the largest unit of British imperial finance in the Far East. And three British insurance companies are closely tied up with the Morgan House.

Morgan is represented in India by Sir Thomas Catto, a member of the British firm, with headquarters in Calcutta. Besides Catto, three other London partners are active in Yule, Catto & Co., which operates in Calcutta as Andrew Yule & Co., Ltd. This company has large interests in the jute industry and is also tied up with tea, Indian coastwise shipping, Bengal coal mines, flour, oil, construction, rubber, sugar, paper and printing, electric power, and insurance. Except possibly in jute, the firm is not dominant in these various Indian industries. Catto is, however, a director and deputy chairman of the Mercantile Bank of India, Ltd., a British concern with branches not only throughout India but also in China, Dutch East Indies, Siam and Mauritius.

Within the United States the most striking post-war development of Morgan power has been the growth of his utility empire. (See below, page 41.) Other important industries in the United States in which the Morgan direct interest is strong include copper and other metal mining, coal, steel, locomotives and railroad cars, agricultural machinery, radio, and of course railroads and shipping. Through the duPont family which works in close alliance with the Morgan firm, the position in chemicals is strong. Through General Motors, Morgan is active in aviation. Among food manufacturers and distributors, we find a definite Morgan interest in National Biscuit Co., Lamont, Corliss & Co., Standard Brands, and Gold Dust Corp. Morgan has also gone into retail trade.

The total extent of Morgan power in American industry and finance defies statistical measurement. We can, however, list 35 banks, insurance companies, etc., and 60 non-financial corporations on which Morgan partners were directors on January 1st, 1932, and whose assets on that date are known. Here we find a total of $30,000,000,000 of corporate assets having this immediate link to the Morgan firm.* If we include

*This number—95 companies—does not count duplications, when there are two or more partners on the same company or when there is at least one Morgan partner on two or more companies controlled by a single corporation. Also it does not include the 19 companies which had a Morgan partner as director on January 1, 1932, but for which no data on assets are available. See Appendix D, page 317 ff.

companies tied in a similar way, by cross-directorship, to the First National Bank in the City of New York, which is the innermost sanctum of Morgan commercial banking, or to Bonbright & Co., who represent Morgan on the public utility front, we find another $16,200,000,000 of assets, in 16 banks, insurance companies, etc., and in 26 miscellaneous corporations.

These 51 banks, etc., and 86 non-banking corporations with their combined assets of $46,200,000,000 include foreign corporations with over three billions of assets. The American total—nearly 43 billion—represents nearly one-sixth of the total wealth of all corporations in the United States. They constitute the clearly defined inner stronghold of Morgan power.

But like a medieval fortress, this inner stronghold is surrounded by open stretches on which maneuvers can take place only with the knowledge and good will of the ruling lord. Morgan control shades off into Morgan dominance and dominance shades off into Morgan influence. For parts of these outer stretches of the Morgan territory a few rough statistical estimates are possible.

For example, outside of these groups are companies with which the Morgan firm or their close allies, First National Bank and Bonbright & Co., have had relations through carrying deposits or underwriting security issues. Some of these, like the Van Sweringen brothers' Alleghany Corp., are really as close to Morgan as the inner area described above. Others, like two Rockefeller oil companies, are clearly outside of the Morgan empire and only include some business relationship with Morgan. In some, as in E. I. duPont de Nemours & Co., Morgan and another financial group (the duPont family) have a strong working alliance. The record of course is incomplete, but we can list over 80 banks and other corporations with $16,500,000,000 of assets, mostly in some degree under Morgan influence but not controlled by the Morgan firm.

Again, among the officials and directors of four leading New York banks we find a considerable group of men who as executives of companies controlled by Morgan are closely identified with the Morgan group. Wherever one of them is a director he carries Morgan influence and he may be the dominant force on the board. Through these men another 145 banks and other companies with combined assets of about $15,000,000,000 are tied in with the Morgan interests.

These various connections, with their varying degrees of control, dominance, and influence, bring roughly $77,600,000,000 of corporation assets into some relation to the Morgan group. These include about five billions of foreign corporation assets. The total within the United States—over $72,600,000,000 as of January 1, 1932—is more than one-fourth of the American corporate wealth.

Certainly the indirect Morgan influence extends even further than these billions indicate. But beyond these groups no statistical estimate has been attempted, and much caution is desirable in rolling up imaginary billions to make the total more impressive.

Impressive enough is the importance of those companies which are linked by cross-directorships to the inner Morgan group (i.e., to J. P. Morgan & Co., Drexel & Co., First National Bank of New York, or Bonbright & Co.). They include ten of the 18 non-banking corporations having on January 1, 1932, assets of more than a billion dollars apiece: four out of the seven railroad systems in the billion-dollar class; four out of the seven utility systems; and two out of the four industrial corporations.

*Billion-Dollar Non-Banking Corporations (as of January 1, 1932)*
*Linked by Cross-Directorship to the Morgan Inner Group*

*Railroads:* Atchison, Topeka, & Santa Fe; Baltimore & Ohio; New York Central; Southern Pacific.
*Other Utilities:* American Telephone & Telegraph; Consolidated Gas Co. of New York; Electric Bond & Share; Commonwealth and Southern.
*Miscellaneous Industrials:* General Motors; U. S. Steel.

If we include those having Morgan as banker but having no representative from the Morgan inner group on the board of directors, we add three more billion-dollar companies to the list: the group of railroads controlled by the Alleghany Corp., which is clearly within the Morgan domain, and the two great Rockefeller dominated corporations, Standard Oil Co. (New Jersey) and Socony-Vacuum Corp. (now Socony-Vacuum Oil Co., Inc.). Only five of the 18 billion-dollar corporations have no clear connection with the Morgan inner group: Pennsylvania Railroad, Union Pacific Railroad, Cities Service Co. (partly utilities, partly oil), Middle West Utilities Co., and United States Electric Power Corp.

The billion-dollar limit is, however, an arbitrary dividing line and several large corporations fall just below it. Let us see, therefore, how far direct Morgan influence reaches among the largest 200 non-banking corporations. These 200 have among them nearly half of the industrial corporation wealth of the country,—that is exclusive of banks, insurance companies, investment trusts, etc. As of January 1, 1932, this 200 group was made up of 42 railroad and related transportation companies with $25,300,000,000 of assets; 52 other public utility companies, with $27,800,000,000 of assets; and 106 miscellaneous industrial corporations with $28,400,000,000 of assets.

Morgan's inner group held directorships in 14 of these 42 railroads and related companies; in 13 of these 52 other public utility companies, and in 14 of these 106 miscellaneous industrial companies. These were only one-fifth of the largest 200 corporations but they had nearly two-fifths (38%) of the total assets of the group. If we include companies having no director from the Morgan inner group, but using Morgan or Bonbright or First National Bank of New York as bankers, or having at least one director who is a leading official in a Morgan-controlled company, the number of large non-banking companies under Morgan influence

is more than doubled and their assets rise to 59% of the total assets in the group of the largest 200 non-banking corporations.

*Largest 200 Non-Banking Corporations as of January 1, 1932*

| | | |
|---|---|---|
| 42 | railroads, etc., with assets of.. | $25,267,000,000 |
| 52 | other utilities, with assets of.. | 27,819,000,000 |
| 106 | miscellaneous industrials, assets | 28,351,000,000 |
| | Total: 200 corporations, assets.. | $81,437,000,000 |

*Linked to Morgan inner group by directorships are*

| | | | |
|---|---|---|---|
| 14 | railroads, etc., with assets of.. | $11,596,600,000 or 46% | of this group |
| 13 | other utilities, with assets of.. | 13,149,200,000 or 47% | of this group |
| 14 | miscellaneous industrials, assets | 6,138,000,000 or 22% | of this group |
| | Total: 41 corporations, assets... | $30,883,800,000 or 38% | of the 200 total |

*Having as director Morgan man outside of inner group or having Morgan or Bonbright or First National as bankers are*

| | | | |
|---|---|---|---|
| 14 | railroads, with assets of.....$ | 5,738,900,000 or 23% | of this group |
| 5 | other utilities, with assets of.. | 2,430,200,000 or 9% | of this group |
| 27 | miscellaneous industrials, assets | 9,080,500,000 or 32% | of this group |
| | Total: 46 corporations, assets.. | $17,249,600,000 or 21% | of the 200 total |

How the banking situation in New York, Philadelphia and Chicago is directly and indirectly dominated by Morgan and how the big insurance companies are linked to the Morgan group are set forth in Chapter VI. Here we only note that 38 banks, insurance companies and other financial corporations, each having more than $75,000,000 of assets, are linked to Morgan either through inner group directorships or through these well-known Morgan lieutenants.

But Morgan and his partners do not despise connections with smaller companies. Partners in the Morgan firms sit on the boards of at least 50 companies of all kinds, including banks, whose assets are less than $75,000,000 apiece. Some of these "small" companies are of great strategic importance. They include, for example, Morgan's Ætna Insurance Co., J. I. Case Co. (agricultural machinery), Crowell Publishing Co. (a pro-capitalist propaganda factory), General Asphalt Co., International Agricultural Corp., Johns-Manville Corp. (asbestos and building products), Standard Brands, Inc., and Texas Gulf Sulphur Co. (For fuller list of companies whose connections with the Morgan group have been traced, see Appendix D, page 317 *ff.*)

## *Morgan Wealth*

These billions of corporation assets are, of course, distinct from the capital actually owned by J. P. Morgan and his partners. And while we are especially concerned in this study with the power of Morgan,

Rockefeller, Mellon and a handful of other financiers, we must not forget that along with the increasing concentration of power has gone a steadily increasing concentration of wealth. But the wealth and the power do not exactly correspond. The Morgan power is undoubtedly greater than the Rockefeller power or the Mellon power, but the wealth of the Rockefeller family or the wealth of the Mellon family is undoubtedly greater than the wealth of the Morgan family and possibly greater than the wealth of all the Morgan partners combined. Henry Ford and his son Edsel Ford were certainly wealthier than J. P. Morgan before the crisis, and very likely their incomes are still greater than Morgan's personal income, but beyond the domain of their own corporation the Ford power is negligible.

From the beginning the Morgan banking group has functioned for the purpose of increasing the wealth of the head of the house and his partners. The earliest ventures of the first J. P. showed no squeamish nicety of method in "making money."

During the Civil War, his father's firm in London was adding to its millions by helping panicky British capitalists to sell their American bonds in the United States. At the same time the young J. P. was making the most of speculative opportunities in New York. Guns condemned by the United States Army as unsafe for soldiers who might carry them were purchased from the government arsenal with funds borrowed from J. P. Morgan and sold again to the army to be placed in the hands of northern soldiers. A House of Representatives committee, investigating the graft in Civil War purchases, characterized this deal as fraudulent—"an effort... to obtain from the government some $49,000 over and above the value of the property sold" and "a crime against the public safety."[13] Also, J. P. and another smart young man turned a pretty profit of $160,000 by speculating in gold and manipulating the foreign exchange rate.[14]

As Morgan moved upward and won his place as the leading banker in the country, which included a privileged position in the floating of government bonds, his technique of profit-making was somewhat sobered and refined. But when Morgan and Belmont (American agent of the Rothschild interests) undertook to save the gold standard in 1895, "Their terms... were extremely harsh; they measured with little mercy the emergency of the Treasury... no such demand has been made by any Government-bond syndicate during the present generation." This is the opinion of Alexander D. Noyes (now a financial editor of the *New York Times*) as expressed in his book on *Forty Years of American Finance*.[15]

In organizing the U. S. Steel Corp. in 1901, Morgan set up a capital structure that added from five to six hundred million dollars to the value of the merged properties, frankly speculating on expansion of the industry and monopoly profits for his company.[16] How much of these later profits went into the Morgan treasure nobody knows, but it is a matter of record that the organization fees taken by Morgan and his associates amounted to $62,500,000 in cash besides some million and a half shares of the newly issued stock. Such dealings are still good Wall Street form, and the Mor-

gan firm has unblushingly backed "write-ups" of utility properties and such a maze of holding companies as the Van Sweringen brothers have set up for the control of railroads.

Morgan was deeply involved in the insurance scandals uncovered in 1906. The firm had connived at concealment of illegal transactions including matters profitable to the Morgan firm and corporations in which it was interested. The whole rotten story of expensive lobbying, bribing of newspaper writers, favoritism profitable to insiders and their relatives, the use of inside information for personal profit, and the manipulation of insurance funds for unloading security issues makes an important chapter in the history of capitalist methods.*

A few years later Morgan methods were again shown up in the looting of the New York, New Haven, and Hartford Railroad. The elder J. P. Morgan aimed at a complete monopoly of all public transportation in New England, and stopped at nothing to achieve his purpose. "Not merely were recklessly extravagant acquisitions made in mad pursuit of monopoly; but the financial judgment, the financiering itself, was conspicuously bad." This was the sober opinion of Louis D. Brandeis, now a Justice of the U. S. Supreme Court.[17] Thousands of small stockholders lost their savings in the crash that followed. The whole affair was one of the most conspicuous blots on the Morgan record. Even from the capitalist viewpoint it revealed a complete lack of the "statesmanship" with which he is commonly credited by his admirers.

When the elder J. P. Morgan died in 1913, he left an estate valued at $77,465,975, including $32,346,099 represented by his share in the four banking firms.[18] Nearly half of the balance was tied up in art treasures, and the present J. P. Morgan is said to have inherited little active capital beyond the investment in the banking firms. But he helped himself by selling much of the Morgan collection which had been loaned to the Metropolitan Museum. Twenty years later he sold additional pictures and miniatures. Shortly after his father's death the present J. P., grudging the $3,000,000 of inheritance taxes which the estate had had to pay on his father's property, took out the largest individual life insurance policy that had been written up to that time, $2,500,000 payable to state or federal treasuries as an offset against inheritance taxes that will be due when it comes his turn to die.

Combined balance sheets of the New York and Philadelphia firms published at the Senate hearings in May, 1933, showed that their "net worth" (that is, capital that would be available for distribution among the members of the firms after settling all the firms' liabilities) had been above $100,000,000 during the boom and was just over $53,000,000 on December 31, 1932. But how this would be pro-rated among Morgan and his partners

* For details see *Report of the Joint Committee of the Senate and Assembly . . . appointed to investigate the affairs of life insurance companies,* transmitted to the New York Legislature Feb. 22, 1906, and published by the State of New York as Assembly Document No. 41.

we do not know. And, of course, it does not include their privately invested personal wealth.

From *They Told Barron* (page 2) we learn that the first J. P. Morgan took each year 51% of the profits of his banking firms. But whether the present J. P. follows this example and what these profits have amounted to are among the points on which information is neatly withheld in the statements made public at the Senate hearings in May, 1933. From the $11,000,000 of federal income tax paid for 1929 by Morgan and his 23 partners in New York and Philadelphia, it was estimated that their combined *net* incomes from the firm profits plus their own personal investments must have aggregated at least $44,000,000 and may have topped $60,000,000.[19] During the boom years, it was commonly stated that a Morgan partnership was worth a million dollars a year, and the older partners and the present J. P. Morgan have certainly built up large personal fortunes. Thomas W. Lamont, for example, paid $847,820 of federal income tax for the year 1923.[20]

Morgan maintains seven estates: his New York mansion set in a green lawn on Madison Avenue, with two costly buildings for art treasures and library; a lordly manor house on Long Island; a "lodge" at Climax, North Carolina; a large town house in London; an 18th century estate, with baronial village, in the country near London; a 30-room "shooting box" in Scotland; and a 3,000-acre farm in Scotland, purchased in 1931 from the Earl of Dalhousie.[21] In 1930 when his "losses" on capital values more than balanced his income and began to relieve him from paying income tax in the United States, his ocean-going yacht was replaced by a new and larger *Corsair* at the cost of two million dollars.

## *Morgan Workers*

The sheer extent of Morgan wealth is, however, of less importance to the working class than the fact that the Morgan firm has been for more than thirty years dictating to important sections of the working class the terms under which they are exploited. Time and again Morgan workers have revolted but as yet the Morgan power has been maintained.

The great anthracite strike of 1902 was fought out with Morgan railroad-coal companies, and when Morgan was beaten by the mine workers his henchmen attempted to destroy from within the fighting powers of the United Mine Workers of America.

It was Morgan's U. S. Steel Corp. which took the lead in refusing to shorten the 12-hour day, seven-day week until after the great steel strike of 1919. Also in 1919 U. S. Steel took the lead in summoning state cossacks and importing gunmen to ride into workers' dwellings and break up strikers' meetings. The Morgan policy was squarely responsible for the death of Fannie Sellins, heroic woman organizer killed near an Allegheny Steel Co. mine where she was arousing the miners to active solidarity with the steel workers.

Such Morgan companies as U. S. Steel, General Electric, and General Motors (Morgan-duPont) have taken the lead in establishing systems of espionage among the workers, as a means to intimidate them and prevent organization.

Morgan railroads did their full share in breaking the strike of 1922.

Morgan, in the midst of luxury, approves the crisis policies which have thrown out hundreds of thousands of workers from his railroad and telephone systems since 1929 while cutting wages for those still employed.

In the midst of mass unemployment when workers are suffering and starving, Morgan has thrown his power against even the most meager beginnings of compulsory unemployment insurance, personally pleading with the little capitalists and the workers who still have jobs to share with the hungry jobless.

Yes, behind a thin veil of "welfare" work and "safety" campaigns, the Morgan interests pursue a cold-blooded, ruthless policy, robbing the working class in the typical capitalist fashion and holding down the workers with brute force when they dare to revolt.

CHAPTER III

# ROCKEFELLER, A FAMILY POWER

JOHN D. ROCKEFELLER, senior, was born in 1839, two years later than the first J. P. Morgan, and he began to build up his wealth and power in the years of rapidly expanding capitalism which followed the Civil War. Morgan was always primarily a banker whose industrial interests expanded through financing, reorganizing and combining railroads and industrial companies. Rockefeller was primarily an industrialist whose banking interests developed after Standard Oil had rounded out a world-wide organization.

Rockefeller's background was also quite different from that of the wealthy Morgan whose father was an international banker before him. John D. Rockefeller, senior, was a country boy, son of an obscure exploiter of pioneer settlers, who roamed the country from New York to Iowa peddling a cancer "cure." To a neighbor at home he boasted of lending money to western farmers at 12 per cent and preferring those who could not pay so that he might foreclose and take their farms.[1]

John D. was a real chip off the old block and paid a grateful tribute to his father. In his *Random Reminiscences of Men and Events,* written when he was seventy years old, Rockefeller says:

> To my father I owe a great debt in that he himself trained me to practical ways. He was engaged in different enterprises; he used to tell me about these things, explaining their significance; and he taught me the principles and methods of business.[2]

But Rockefeller was by no means the traditional poor boy of American mythology. His first job, it is true, paid him only fifty dollars for three months' work as book-keeper for a commission merchant firm in Cleveland. But when he and another youth set up a partnership as commission merchants in 1858, the cancer quack was ready and able to advance one thousand dollars of capital.

## *Building an Oil Monopoly*

The first oil well in the United States was dug in northwestern Pennsylvania the following year and Rockefeller watched the oil rush with interest. He decided that production of crude oil was too speculative and

risky but that oil refining could be made a steadily profitable business. So in 1862 he put his savings—already amounting to several thousand dollars—into a new firm with a youth named Andrews who had original ideas on how to refine oil. Rockefeller himself continued in the commission business until 1865 when he began to give all his time and attention to building a fortune in oil. Five years later, in 1870, Rockefeller, Andrews and a small group of associates incorporated the Standard Oil Co. of Ohio with capital of $1,000,000.

The world was ready for oil. Some light better than candles and cheaper than whale oil was urgently needed and fortunes awaited those who could efficiently produce and distribute kerosene. Increasing use of machinery was preparing a tremendous market for lubricating oil from petroleum to replace animal fats. When the growing market for kerosene was checked by the spread of gas and electricity, gasoline was coming into demand for automobiles and oil began to displace coal as a marine fuel. Rockefeller was strategically placed in Cleveland, an obvious center for refining and shipping the oil from the wells near by in Pennsylvania which were at first the only source of American oil.

These external facts gave him a good running start in a new industry. But, in addition, Rockefeller was extraordinarily persistent and shrewd and ruthless in applying the normal tactics of capitalist competition. He and the associates whom he gathered about him were ingenious and lawless in creating difficulties for Standard Oil's competitors.

As the largest shipper of oil Rockefeller demanded, and received, freight rates lower than those paid by any other refiner. Then he worked out a secret alliance with the largest refiners in Pittsburgh, Philadelphia and New York and together they persuaded the three railroads that tapped the oil regions to give them not only a slashing reduction (rebate) on their own shipments but a cash payment called a "drawback" on every carload of oil shipped by their competitors. Before this extraordinary trick was discovered and stopped, Rockefeller had swallowed all his chief Cleveland competitors. Railroad rebates on Standard shipments—without the added "drawback"—continued for forty years to place a burden on Standard competitors.

Rockefeller's experience soon convinced him that an alliance of independent companies controlled by competing capitalists was shifty and undependable. Conflicting interests kept breaking down the agreement. So he began his systematic drive for monopoly control of oil refining in the United States.

Secrecy has always been one of the most marked characteristics of Rockefeller operations, but secrecy accompanied by systematic fact finding, with elaborate espionage, about the affairs of competitors. Dummy firms or companies operating apparently in competition with Standard Oil have been a favorite device for penetrating associations of competitors and for avoiding attack. Dummies have also been used to acquire stock in competing companies and stealthily build up Rockefeller control from within.

Of course, many competitors were simply squeezed out and destroyed. Some others, whose plants might be useful, were openly bought up at a value fixed by Rockefeller, who would pay what his experts figured that the plant would be worth to Standard Oil. Even at this valuation, those who received Standard Oil stock and were able to hold it grew rich. Those who took cash or who sold their stock before its value had risen were the victims of a cold appraisal which allowed nothing for the intangible "good will" that Rockefeller had deliberately destroyed.

Occasionally, agents of the Standard companies were responsible for destroying the physical property of competitors. At least one such case was proved in Buffalo, in 1881. The directors of Vacuum Oil were indicted but the only men convicted were two local managers. Rockefeller blandly maintained that he and Standard had nothing whatever to do with Vacuum Oil and heartily disapproved of such methods. As a matter of fact, a three-quarters interest in Vacuum had been acquired by Standard Oil two years before, and the local managers—punished only by paying small fines—continued in their positions undisturbed.[3]

When Rockefeller met strong opposition—as in the 1877 battle with the Pennsylvania Railroad which was backing independent refiners—he mobilized all his resources of brains and trickery and political influence and poured out thousands of dollars to accomplish his purpose. He knew that monopoly power was a source of super-profits, and he drove for it with single-minded intensity of purpose.

Many years later, John D. Rockefeller, Jr., in an address on trusts, justified the tactics of monopoly by the following analogy: "The American Beauty Rose can be produced in its splendor and fragrance only by sacrificing the early buds which grow up around it."[4]

Second, but of equal importance, was Rockefeller's determination to cut the cost of producing and distributing kerosene. From the beginning he applied himself to thinking out methods of saving expense. His firm made its own barrels and did its own hauling. Although for years he stayed out of crude oil production, he bought directly from the producers and cut out the jobbers through whom other refiners were buying their crude. He built up a marketing apparatus and made deliveries directly to retailers and large consumers. In 1885, when competition of Russian oil was seriously threatening his exports to Europe and the Far East, Rockefeller launched tankers to carry oil across the ocean and built refineries and distributing systems in foreign countries.[5] Shortly afterwards, when the Pennsylvania producers attempted to combine and raise the price of crude, Rockefeller decided the time had come to control enough crude to break down their combination.[6]

Along with this went a systematic attack on waste in the process of production and a constant search for commercial by-products. But in spite of his technical staff and his own close attention to economy, some of the most important changes in oil technique originated outside of the Rockefeller companies. Pipe lines, for example, were not invented by the Rockefeller group and they had been used some fifteen years for short

runs in the oil fields before any one tried to apply the pipe line idea to long distance transportation of oil. Then it was a rival company, determined to maintain a refinery on the Atlantic seaboard and to underbid the Rockefeller freight rates on the railroads, which built in 1879 the first long pipe line to carry crude oil from the Pennsylvania oil fields to the Atlantic side of the Allegheny mountains. Of course, Rockefeller recognized at once the tremendous importance of this innovation and within two years he had absorbed the rival company. A pipe line monopoly became an important part of the Rockefeller scheme.

Systematic cutting of the cost of production was important for two reasons. It gave Rockefeller a steady supply of super-profits, when his prices were high enough to cover the costs of his competitors. It also allowed him to carry on price wars, first in one region and then in another, which destroyed upstart competitors while fierce underbidding brought only negligible losses to the Rockefeller companies.

Third was Rockefeller's policy of piling up large cash reserves, from the enormous profits of his companies. Also he centralized the funds of all the companies in the New York office, and arranged that so far as possible they should borrow at low interest from the Standard Oil Co. of New York instead of paying a higher rate of interest to local banks. Standard Oil had "a cash surplus greater than had ever before been accumulated by any industry on earth," according to John Moody and George K. Turner, who described this feature of Standard Oil development in *McClure's Magazine,* March, 1911. In 1904 the Kansas-Oklahoma field came into production. In 1906 the Illinois field.

> In the four years following 1906 it (Standard Oil) threw into these new fields considerably more than $100,000,000 in cash, surrounded the new oil territory with its gathering machinery, and mapped out a new and ideal arrangement for the distribution of its products, covering the entire United States. (*Ibid.*)

Fourth, from the beginning Rockefeller was a cold and extremely competent realist in building up a group of associates who could serve his companies. Already in 1870 he had begun to develop a system of useful connections. John T. Flynn describes this in *God's Gold.*[7]

> He saw to it that he had friends planted wherever they might be needed. When his credit was discussed in one bank there was Harkness, a stockholder, to vouch for him. If it was brought up in another bank, another stockholder, Stillman Witt, was there to aid him. When he wanted railroad favors, there was [sic] Amasa Stone and Watson, also stockholders, to stand by him. By this time he had tied to his enterprise, one way or another, most of the men of wealth and power in Cleveland.

Rockefeller always sized up his competitors and those who attacked his methods and sooner or later he bought over into his own service those whose brains he respected.

Last, but not least, Rockefeller knew the importance of having friends

within the political machine. Schoolmate at Owego of Tom Platt, who became Republican boss of New York State, and schoolmate in Cleveland of Mark Hanna, the first leader of the "Ohio gang," Rockefeller retained their friendship and never hesitated to manipulate political appointments in the interest of Standard Oil. Meanwhile Payne and others functioned for Standard Oil in the Democratic Party. John D. Archbold, one of his chosen intimates, became perhaps the boldest dispenser of bribes in the history of American capitalism.

## *Changing Forms of Rockefeller Oil Trust*

Before the organization of Standard Oil Co. of Ohio in 1870, Rockefeller had begun his little game of dividing his operations and using different names. For some years his different companies or firms were held together simply by the fact that all were owned by Rockefeller and his close associates. Rockefeller himself was the largest stockholder, but when the Standard Oil Co. of Ohio was organized he owned less than one third of the shares. After the Standard Oil Stock was made available to outsiders, Rockefeller, with his large minority holdings, and his intimate associates with their smaller holdings, held among them a clear majority that gave them unquestioned control.

As the business of the several Rockefeller companies developed, Rockefeller wanted some closer organic connection among the companies without having to admit to hostile competitors the extent of his oil interests. The "trust" form, worked out in 1879 and then in greater legal perfection in 1882, meant that Rockefeller and his inner ring became a board of trustees to which they themselves as individuals assigned "in trust" their controlling stock interest in the many apparently unrelated companies. This "trust" arrangement aroused a fury of opposition when some years later it became known to their competitors and the rest of the capitalist world. *Nominally* it was dissolved in the early 90's by order of the Ohio courts, but actually it continued to function. It was saved from further prosecution in Ohio by a political shift in the state Attorney General's office, but Rockefeller saw that he needed some better form of combination. A law passed in New Jersey in 1889 had permitted a corporation to own stock in another corporation. So in 1899 Standard Oil Co. of New Jersey took over the stock of all the vast network of Rockefeller oil companies while the holdings of the individual capitalists were concentrated in the one parent corporation.

In 1911—the year when the American Tobacco Company was also "dissolved" and a "Money Trust" investigation was in the offing—the United States Supreme Court ordered Standard Oil Co. of New Jersey to break up its holdings into 34 parts, and to distribute the stock of the 33 groups of separated subsidiaries among the stockholders of Standard Oil Co. of New Jersey. These separate companies all started of course with identical groups of stockholders and in each of them the Rockefeller inner

ring received a majority of the stock. John D. Rockefeller himself had about one-fourth of the shares in each of the 34 companies.[8]

Rockefeller claimed to have retired some years earlier, but he had occupied the president's chair until the 1911 reorganization. Then he withdrew, passing on the title of president of the Standard Oil Co. of New Jersey, which has remained the most important company in the group, to his old friend and fellow-exploiter, Archbold. William Rockefeller, brother of John D., also withdrew in 1911 and the Rockefeller name has disappeared from among the executives and directors of the Standard Oil companies.

But the John D. Rockefeller family, through its own holdings and the holdings of its endowed institutions whose investments are managed by John D. Rockefeller, junior, still has a controlling minority interest in the chief companies, including the big four (Standard of New Jersey, Socony-Vacuum, Standard of Indiana, and Standard of California) and the more important pipe line companies. The smaller Standard of Ohio and Ohio Oil Co. are also "Rockefeller," and Rockefeller interests held 7% of Consolidated Oil after the merger of Sinclair and Prairie companies in 1932 as Consolidated Oil Corp.[9] The Rockefeller group is believed to have withdrawn from Standard of Kansas, Standard of Kentucky, and Standard of Nebraska.

The Rockefeller oil companies still have certain characteristic features. They are governed by small boards of directors, made up chiefly of active executives. No outside banking interest is represented, except as Standard Oil executives themselves are directors of outside banks and insurance companies. One exception to this was the presence on Standard of Indiana of Melvin A. Traylor, president of the First National Bank of Chicago, until his death in 1934. The chief companies still operate in the main without serious competition among themselves. They are no longer the only large oil companies in the United States, but together they still dominate the American oil industry.

Standard Oil had built foreign refineries and set up its world-wide marketing apparatus long before it began to seek foreign concessions for the production of crude oil. In Mexico, E. L. Doheny and British interests had pioneered in oil before one of the Standard subsidiaries went in also. During the World War and later, the leading Standard Oil companies drove to make up for lost time in acquiring foreign oil resources. To-day subsidiaries of the Standard of New Jersey have oil properties in Venezuela, Colombia, Peru, Bolivia and Argentina, Mexico, Trinidad, Canada, Roumania, Poland, and the Dutch East Indies. Standard Oil of California has acquired oil lands in Mexico, Colombia, Venezuela, Arabia, and the Bahrein Islands in the Persian Gulf, but its actual foreign production is still unimportant.

With the help of the State Department, Rockefeller also secured a toehold in the Mosul oil fields (British-controlled Iraq). There two Standard companies and the Mellon-owned Gulf Oil Corp. have together a less than

one-fourth interest in the Iraq Petroleum Corp., dominated by British oil companies.

On the relation of Standard Oil companies to each other, to "independent" American companies and to foreign oil interests, see Chapter X, page 157 ff.

## *Rockefeller Outside of Oil*

Standard Oil long ago stepped over from the field of oil and its by-products into the related field of natural gas. The extensive interests of Standard of New Jersey in gas wells and natural gas pipe lines have now been partly coordinated with the natural gas interests of Columbia Gas and Electric Corporation, one of the utility groups in which the Morgan firm has been directly represented.

Standard Oil Co. of New Jersey has had since 1927 an alliance with the German chemical trust. W. C. Teagle, of Standard Oil, and Edsel Ford are the only American directors of the American I.G. Chemical Corp. for general chemical development. (See Chapter XIII, page 192.) Standard of New Jersey and the German chemical trust also own jointly the Standard I.G. Co., which controls throughout the world outside of Germany the licensing and use of patents developed by either company covering the hydrogenation of coal and crude oil.

Quite outside of the Standard Oil companies, John D. Rockefeller, senior, built up a large part of his fortune by investing his Standard Oil dividends in other projects and corporations. In 1883, he bought a seat, which he still owns, on the New York Stock Exchange, but he has never joined in trading on the floor. A little dealing in stocks is now one of the aged capitalist's daily diversions, but apparently this has always been for him a quiet little game and never his chief financial interest outside of Standard Oil.

His brother William, on the other hand, who also became active in Standard Oil, was a tricky and dashing speculator in stocks. With Henry H. Rogers of Standard Oil and James Stillman of National City Bank, William Rockefeller, after the panic of 1893, put through wild deals in copper and other stock speculation in the most approved manner of the recent post-war boom. They were known as the "Standard Oil Gang," but Thomas W. Lawson, a fellow capitalist who exposed Amalgamated Copper in 1904, and John T. Flynn[10], the liberal biographer of Rockefeller, believe that John D. took no part in most of these manipulations. Not that he disapproved their methods—the history of Standard Oil shows that such an idea would be absurd—but his whole temper of mind was more cautiously calculating than his brother's.

John D. did join his brother William in respecting the ability of James Stillman, and after Stillman became president of National City Bank in 1891 the Standard Oil backing which he received was an important factor in pushing National City up to the top among New York banks. Even

here, John D.'s interest was less active than his brother's and it is now believed to have been entirely withdrawn.

In spite of his widely scattered and very large investments, very few corporations outside of the Standard Oil group have been brought under direct control by the John D. Rockefeller branch of the family. The earliest outside project was built up in Minnesota iron ore. Here Rockefeller acquired at distress prices valuable resources which he later sold to Morgan's U. S. Steel Corporation at a profit variously reported as $30,000,000 to $70,000,000. U. S. Steel paid for the properties partly in stock, which gave John D. Rockefeller and his son seats on the board of directors. Ten thousand shares of U. S. Steel are held by Rockefeller's General Education Board, but neither John D. nor his son now appears among the largest stockholders in U. S. Steel and for many years Rockefeller interests have had no visible representation on its board.

In 1902, Rockefeller bought control of Colorado Fuel & Iron Co., the largest steel and coal producer in the West. This company has achieved nation-wide notoriety through its tight grip on Colorado politics and through the brutality of its tactics against strikers. In the investigations that followed the Ludlow massacre (1914) when the strikers' tent colony was burned and women and children were killed, the treasurer of the company admitted that C.F.&I. had been spending "from $500 to $1000 a day" to fight the workers. The same year, according to Flynn, the old John D. was winning a fight for a two-thirds reduction in his personal tax bill in Cleveland.

Shortly after the World War, Rockefeller went heavily into Consolidation Coal Co., operating in Maryland, West Virginia, eastern Kentucky, and Somerset county, Pennsylvania. The family still openly dominates Consolidation Coal, which is—like Colorado Fuel & Iron—a notorious enemy of working class organization. Apparently Rockefeller also controls Davis Coal & Coke Co., another company operating in Maryland and West Virginia, although this connection is not so openly admitted. For many years, Rockefeller was master of Western Maryland Railway, a small line important and profitable because of its coal interests. Although this control is supposed to have been given up (under its affiliation with the Baltimore & Ohio), the board of the Western Maryland Railway Co. still includes Henry E. Cooper, a former "personal representative" of John D. Rockefeller. It may also be significant that Cooper is a director of the Clinchfield Coal Corp., operating in Virginia.

The John D. Rockefeller influence is believed to be strong also on several other industrial companies which include among their directors no member of the Rockefeller personal staff and no Standard Oil official. For example, Corn Products Refining Co. (chemicals), National Lead Co. (with large holdings in Bolivian tin), the Borden Co., and Fox Film are closely identified with Chase National Bank. Bertram Cutler of the Rockefeller staff is a director of Radio Corp. of America, and of American Telephone & Telegraph Co., but certainly in the telephone company and probably in Radio Corp. the Morgan influence is stronger than the Rocke-

feller influence. Since 1933, Rockefeller has been represented in Westinghouse Electric & Manufacturing Co.

In the early days, when Standard Oil was dependent on railroad transportation of oil, Rockefeller played in with the railroad lords and strengthened his position by buying railroad securities. Later, Harriman was a friend of the "Standard Oil Gang" and had the backing of John D. in his efforts to build a railroad empire. Also, as John D. increased his capital looking for outside investment he naturally salted away many millions in railroad bonds and preferred stocks—the usual "safe" investment after the period of wild railroad speculation had led to the Morgan reorganizations of the 80's and 90's. To-day, the holdings of the Rockefeller institutions are widely scattered and include large amounts invested in practically all the major roads, but Rockefeller interests are openly and directly represented only in the New York Central. Here the position of Morgan, Vanderbilt and their allies is stronger than that of Rockefeller. But a few roads outside of the Morgan railroad empire have at least one director not identified as a Rockefeller henchman and yet obviously closer to Rockefeller than to Morgan. These include Delaware & Hudson; Chicago, Milwaukee, St. Paul & Pacific; and Virginian Railway.

Much Rockefeller money is invested in New York traction—especially Brooklyn-Manhattan-Transit and Manhattan Railway, operated by the Interborough Rapid Transit—and probably also in Consolidated Gas Co. of New York. In Consolidated Gas, John D.'s nephew Percy (who died in 1934) has been the only open representative of the family, and Percy Rockefeller, even more markedly than his late father, William Rockefeller, had many independent interests that are quite distinct from the main John D. Rockefeller line.

In banking and insurance, the John D. Rockefeller interests have become strongly entrenched. They have controlled the Chase National Bank since 1930, when mergers made Chase National the largest bank in the United States. They hold a dominant position in Equitable Life Assurance Society which ranks among the leading five in the country. Metropolitan Life Insurance Co., the largest insurance company in the world, is closely identified with Chase National Bank. Standard Oil of California in 1933 acquired stock in the Anglo-California National Bank of San Francisco, now the fifth largest bank on the Pacific Coast. (On former Rockefeller relations with National City Bank, see page 53, of this chapter.)

And the John D. Rockefeller family has become heavily interested in real estate. They have financed several housing projects—always on a business basis—but their largest single real estate venture is Rockefeller Center (or Radio City) which includes two large blocks in mid-town New York. When the Rockefeller Center work was started, the real estate company obtained a $62,500,000 mortgage from the Metropolitan Life Insurance Co., but the total capital invested in the project has not been revealed.

### *The Rockefeller Empire*

To measure the extent of Rockefeller power is, of course, impossible, but again as in the discussion of Morgan certain broad estimates can be made. From these we conclude that the Rockefeller interests are the strongest influence in banks and corporations with assets totaling about $21.5 billion. These figures do not include the chief real estate holdings. Rockefeller interests are also present along with Morgan interests in additional concerns with at least $23.4 billion of total assets.

The largest single block of direct Rockefeller interest is found in Standard Oil companies having around $4,700,000,000 of total assets.

Second in importance is the small group of companies—mostly large concerns—in which the John D. Rockefeller interests are directly represented by one or more of the Rockefeller "cabinet." This is a group of individuals who are employed as a personal staff or who serve on the boards of at least two of three Rockefeller institutions: the Rockefeller Foundation, the General Education Board, and the Rockefeller Institute of Medical Research. Through this Rockefeller "cabinet" the John D. family is linked to 11 companies with published assets totaling about $3,750,000,000, in which the Rockefeller power is in control, and to three other large corporations with over $7 billions of assets in which the Morgan power is in control. The "cabinet" also administers large real estate interests on which figures are not available.

Third in importance are the companies on which Rockefeller influence is indirectly represented outside of the oil industry by officials of Standard Oil companies. Here we find Standard Oil probably the controlling force in some 25 companies with about $1,300,000,000 of assets while Standard Oil influence is present along with Morgan influence or clearly secondary to Morgan dominance in another 11 companies with assets totaling around $5,000,000,000.

Fourth, we must include the indirect Rockefeller interests linked to the Chase National Bank. Some of the more important have already been covered in the companies linked to Rockefeller through his "cabinet." Three of the "cabinet" are directors of Chase: W. W. Aldrich, brother-in-law of John D., junior, is chairman of the bank; Bertram Cutler and Barton P. Turnbull are also among its directors. Our record of the Chase connections is necessarily incomplete. We cannot trace, for example, all the companies in which Chase holds a dominating banking position *without* a cross-directorship. But we can list the companies, not already included in a previous Rockefeller group, on which the bank is represented by one of its officials or by a Chase director who is clearly a "Rockefeller" man. Here we find a group of 116 companies. In 88 companies, with assets totaling about $10,300,000,000 this Chase-Rockefeller influence seems to be the strongest financial force. In 28 others, with assets of more than $6,800,000,000, the Morgan inner group is also represented and in about one-third of these the Morgan influence is clearly dominant.

Apparently distinct from these areas of John D. Rockefeller dominance and John D. Rockefeller influence (with or without Morgan participation) have been the connections of Percy A. Rockefeller and his family. The foundations of the Percy Rockefeller wealth were laid by his father, John D.'s brother William, who was with John D. in Standard Oil. As we have seen, the two brothers followed rather separate paths in their outside interests, and this separation seems to have been sharpened in the second generation. Percy Rockefeller (who died in 1934) may sometimes have represented his uncle, John D., or his cousin, John D., junior, but nowhere was he a director of a company generally identified as within the John D. Rockefeller domain. It is worth noting, however, that Percy Rockefeller and his associates seem to have been the controlling force in corporations having about $1,500,000,000 of total assets. They were also present, together with a strong Morgan influence, in other companies with assets totaling more than $4,200,000,000. (See lists in Appendix E, page 328.)

How important, then, is the Rockefeller share in the largest 200 non-banking corporations?

*Companies among Largest 200 Non-Banking Corporations Linked to Rockefeller Interests as of January 1, 1932*

| | |
|---|---|
| *John D. Rockefeller Inner Group* | |
| 1 railroad with assets of | $ 2,200,900,000 |
| 1 other utility with assets of | 4,235,749,000 |
| 6 miscellaneous industrials, assets | 4,488,858,000 |
| Total, 8 corporations | $10,925,507,000 |
| *John D. Rockefeller Outer Group* | |
| 10 railroads with assets of | $ 5,306,458,000 |
| 5 other utilities with assets of | 2,343,079,000 |
| 13 miscellaneous industrials, assets | 3,277,103,000 |
| Total, 28 corporations | $10,926,640,000 |
| *Percy A. Rockefeller Family* | |
| 1 railroad with assets of | $ 174,321,000 |
| 1 other utility with assets of | 1,312,255,000 |
| 5 miscellaneous industrials | 1,739,594,000 |
| Total, 7 corporations | $3,226,170,000 |

At least 36 large non-banking corporations with assets totaling about $22 billion have some direct connection with the John D. Rockefeller interests. In the "Inner Group" we find five Standard Oil companies and three corporations whose directors include a member of the Rockefeller cabinet. In the "Outer Group" 28 companies are linked to Rockefeller through a Standard Oil official or a "Rockefeller" director of Chase National Bank. These 36 companies had about 27% of the assets of the "largest 200" group. The Percy A. Rockefeller family were active in seven other corporations, with 4% of the "largest 200" total assets.

But these "Rockefeller" companies include at least 13 in which the Morgan influence is stronger than the Rockefeller influence and six others in which the balance of power between the two groups is not clear. And it is apparent that except for the dominating Rockefeller position in the oil industry, the Rockefeller industrial empire remains secondary to the Morgan empire. No exact statistical measure of this is possible, but a rough comparison of their relative strength within the largest 200 non-banking corporations may be attempted. For this comparison we must eliminate from the Morgan totals given in the previous chapter all companies controlled by Rockefeller but indirectly linked with Morgan. And we must deduct from the Rockefeller totals any companies clearly controlled by Morgan. Those linked to both groups without clear indication of the dominant power are also deducted and shown separately.

*Percentage of Assets of Largest 200 Non-Banking Corporations (as of January 1, 1932)*

| | "Morgan" | "Rockefeller" | Both, but Indecisive |
|---|---|---|---|
| Of railroads | 68% | 8% | — |
| Of other utilities | 50% | 5% | 5% |
| Of miscellaneous industrials | 37% | 21% | 5% |
| Of total 200 | 51% | 11% | 3% |

These percentages are important only as rough indication of the *relative* industrial power of the two groups. *They do not represent the total connections of either group.* (For further data on Morgan-Rockefeller relationship, see Chapter V, page 73, and Appendix F, page 334.)

## *Rolling Up a Billion and a Half*

Although the power of Rockefeller is almost certainly less than the power of the House of Morgan, Rockefeller wealth is clearly greater than the wealth of Morgan. In all such comparisons we are, of course, dealing with estimates, but estimates are possible because certain facts are public property and all available facts justify these broad basic comparisons.

The old Standard Oil Company, before the "dissolution" of the trust in 1911, was called the most perfect money-making machine in the world. In the first forty years of its existence (roughly) or up to 1908, the Standard Oil Company made more than $1,200,000,000 of net profits. Approximately $525,000,000 of this was plowed back into the corporation, according to John Moody and George K. Turner, writing in 1911.

> The other fifty-five or sixty per cent of the profits have massed themselves . . . largely in the same half dozen hands that managed the great property. . . . From 1870 . . . in all, a distribution of $718,000,000 cash in forty years. Of this, John D. Rockefeller had approximately a quarter—practically $180,000,000.[11]

More important than this fortune which John D. had drawn from Standard Oil in dividends, giving him every year new tens of millions to invest in other enterprises, was the value of the Standard Oil stock which he held. In March, 1911, before the U. S. Supreme Court ordered the "dissolution" of the trust, Standard Oil stock was selling at over $850 a share, and Rockefeller's personal holdings in Standard Oil were worth approximately $225,000,000.[12]

The "dissolution" of the trust broke up the absolutely unified policy of the Standard Oil group, but it did not check the money-making progress of the principal companies. In fact, the twenty years after "dissolution" (1912 to 1931) their profits piled up almost in geometric progression. The leading 25 companies (including those few from which Rockefeller interest has been withdrawn) paid in that period cash dividends totaling $2,727,500,000 (not counting some $183,000,000 paid by subsidiary companies to their parent companies). Their combined capitalization was pushed up from $244,127,000 (Dec. 31, 1911) to $2,666,930,000 (Dec. 31, 1931) and over $1,439,147,000, or 59 per cent of this increase was accomplished by stock dividends which capitalized part of the enormous accumulation of undistributed profits.

What this means may be illustrated by the history of 249,995 shares in Standard Oil Co. of New Jersey,—the number held by John D. Rockefeller in 1911 when the trust was "dissolved." This block of shares—entirely apart from shares in the 33 smaller companies set up separately at that time—has grown by a stock split-up in 1920 and a stock dividend in 1922 to 4,999,900 shares. They had a market value in December, 1911, of $89,998,200. At the peak of the market in 1929 they were worth $414,991,700 and on December 11, 1933, they were worth $232,495,350. In twenty years (1912 to 1931) they paid dividends totaling $129,997,399, that is, an average of $17,800 *a day*. And even in 1933 they paid dividends of one dollar a share, or $4,999,900 on this block, equal to $13,700 *a day*. It is commonly believed that this block of shares has been kept intact by the Rockefeller interests—part of them still in the hands of the family and part in the treasuries of the Rockefeller institutions.[13]

Although John D. Rockefeller has had only a minority interest in Standard Oil companies, there is no doubt that Standard Oil has been the major source of the wealth which placed him, and his son after him, at the head of the list in the United States and among the richest two or three men in the world.

Before 1923, John D., senior, had transferred most of his fortune to his son (to avoid the inheritance taxes and the publicity involved in leaving a mammoth estate behind him). One flash of figures was permitted by the opening of federal income tax records in 1924 and 1925. These showed tax payments by John D. Rockefeller, Jr., amounting to $7,435,169 in 1924 and $6,277,669 in 1925. His father paid only $124,266 and $128,420.[14]

For an estimate of Rockefeller wealth, we turn to John D. Rockefeller's liberal biographer, John T. Flynn. Mr. Flynn states that when the elder John D. "retired" in 1896 (although he retained the presidency of Stand-

ard Oil until 1911) "his entire fortune could not possibly have exceeded $200,000,000, if indeed it was so great."[15] The real piling up of billions came after that date. Present Rockefeller wealth Mr. Flynn sums up as follows:

> . . . in 1929, after having given away the immense sums tabulated above (totaling over $574,000,000—*A.R.*), the fortune in the hands of John D. Rockefeller and his son must have been very near a billion dollars. . . . that fortune must be, at this time [1932], enormously reduced as a result of the widespread and drastic contraction of security values due to the depression.[16]

But crisis reduction in security values cutting down their "wealth" and crisis reduction in dividends cutting down their income still leave the Rockefeller family among the richest in the world. Personal holdings reported by John D. Rockefeller, Jr., in November, 1934, in three Standard Oil companies (New Jersey, California, and Socony-Vacuum), apart from all other interests, had a market value of more than $250,000,000 at that time.[17] And dividends paid during 1934 on these shares alone amounted to $7,954,872, or more than $20,000 a day.

The John D. Rockefeller family is supposed to live "simply" because some of their tastes are old-fashioned and liquor is ruled out. But the fact is that they have set themselves up with luxurious and expensive estates. At Pocantico Hills, in Westchester county, New York, behind his endless barbed wire fence, the old John D. has had built for his pleasure some seventy miles of private road circling in and out on the vast acreage where a thousand workers are employed to maintain the parklike estate and keep up the houses. Besides this lordly estate at Pocantico Hills, John D. has places in Lakewood, N. J., and Ormond Beach, Florida, and a deserted estate near Cleveland. Also, John D., Jr., has a summer place at Seal Harbor, Maine.

## *Labor Policies*

Rockefeller philanthropy and systematic publicity, put over by the late notorious Ivy Lee, have built up a picture of kindliness and generosity which cannot fool the rank and file workers who are sweating to build up the Rockefeller wealth. Standard Oil companies boast of paying high wages, but their workers in the United States know that along with a relatively decent wage scale goes a terrific speed-up and a most exacting standard of efficiency. They know that their ranks are riddled with spies and that to be caught organizing a union is to invite immediate and certain dismissal. Beyond the Caribbean, the wage scale drops sharply.

"Philanthropy" has not prevented wholesale firing of workers no longer needed. It throws the workers out to starve when there are no profits to be had from steady employment. Two glaring illustrations of this have come from Rockefeller coal companies. Consolidation Coal Co., reorganizing its production in 1928, closed ten mines and dismissed 2,500

mine workers, with letters commending them to other operators. Since the coal industry was eliminating some 75,000 workers that year, this letter amounted to less than nothing.[18] In Colorado, the C.F.&I. has expected the mine workers having jobs to contribute to the unemployment relief fund. This was especially reported from one camp where workers whose irregular employment brought them less than $10 a month and who had families to support were each contributing 25 cents a month for those who were totally unemployed.[19]

When workers are disabled—well, so much the worse for them and for their families. In 1915, Colorado had not yet passed a workmen's compensation law. Figures brought out that year by the Industrial Relations Commission[20] showed that benefits paid by Rockefeller's Colorado Fuel & Iron Co. to the dependents of workers killed in its coal mines were ranging from $250 to $700, or less than half the amounts then required in states which had workmen's compensation laws. One worker three times injured and made permanently lame told the Commission that after the third injury he had been cast aside without a pension or even the smallest lump-sum payment.

Rockefeller "philanthropy" comes to its finest flower when the workers, in spite of spies and thugs, stand together and go out on strike. Evicting of militant workers from company houses has been a commonplace of coal strikes. The Ludlow massacre, when militia fired on the strikers' tent colony in 1914, was only the climax in a long and bloody coal war in Colorado. In two successive years, 1915 and 1916, when several thousand workers were on strike at Standard Oil plants at Bayonne, N. J., the strikers met the bullets of Rockefeller guards. Two strikers were killed in the 1916 battles and at least 25 were seriously injured; also one woman was killed by the Rockefeller bullets.*

After Ludlow, when the feelings of workers and liberals blazed up in anger over that outrage, the Rockefellers tried to disclaim responsibility. At first they maintained that labor relations are strictly the affair of company executives. But when that proved a little too raw beside the dead bodies of women and children, John D., junior, concocted a statement about the workers' "liberty":

> . . . I should be the last one to surrender the liberty under which they have been working and the conditions which to them have been entirely satisfactory, to give up that liberty and accept dictation from those outside who have no interest in them or in the company.[21]

So he proposed "to unionize the camp," and his statement and example laid the basis for the great drive of company unions with which American corporations have tried to prevent genuine organization of the working class.

* For a full account of the Colorado strike and the Ludlow massacre, see the *Report on the Colorado Strike* by George P. West, published by the U. S. Commission on Industrial Relations, 1915.

How Rockefeller "liberty" operates has been shown again in recent years. Every one of the C.F.&I. workers who testified before the Colorado Industrial Commission at Crested Butte and Trinidad in 1931 was fired by the company, without even the formality of notifying the workers' representatives on the committee of the company union. At Walsenburg, a coal miner who stopped on a street corner to speak with two outside union officials and a member of the Industrial Commission, was dismissed the following day.[22]

John D. Rockefeller, Jr., is still lord of the company union offensive which has been renewed for the undermining of workers' resistance in the present crisis-depression. He and his cohorts dominate the broad policies of Industrial Relations Counsellors, the chief agency giving advice on the technique of company unions and related schemes.

All this, of course, runs true to capitalist form. Underneath wide variations in capitalist technique for dealing with the workers lies the basic fact that capitalism depends upon keeping the working class in subjection. Strikes interrupt the process of exploitation; sometimes they express a rising political consciousness that foreshadows the threat of revolution.

CHAPTER IV

# THE MELLONS OF PITTSBURGH*

THE Mellon group represents not only a well-developed fusion of banking and industry but the most obvious tie-up of finance capital with the capitalist state. Morgan and Rockefeller interests have had a controlling voice in political life but in the main they have left the holding of office and the managing of political machines to lieutenants who may not be immediately recognized as their servants. Andrew W. Mellon, on the other hand, having contributed liberally to the Harding campaign "accepted" a seat in Harding's notorious cabinet. As Secretary of the Treasury for ten years, Mellon openly manipulated tax policies for the benefit of the upper ranks of capitalists. Andrew's nephew, William L. Mellon, was for several years chairman of the State Republican Committee in Pennsylvania. The "Mellon machine" became about as notorious in corrupt Pennsylvania politics as the previous Penrose and Quay machines.

## *Beginnings of Mellon Wealth*

Mellon wealth had its earliest roots in Pittsburgh real estate.

Old Thomas Mellon who died in 1908 at the age of 95 had been brought over from Ireland by his parents as a child of seven. The family made a difficult living on a farm near Pittsburgh, but Thomas Mellon managed, by hard work and youthful experiments in the art of lending, to get himself equipped for the practice of law. Soon the law became for him less a profession for serving clients than a guide to his own smart dealings in real estate. Quite soberly he selected a wife whose father had large land holdings near the growing city. And the rapid growth of Pittsburgh from a pioneer outpost to the chief center of coal and iron poured into Thomas Mellon's hands the beginnings of a fortune from the accompanying increase in land prices.

Thomas Mellon's substantial wealth and his strict observance of the laws of property won him a judgeship. But during his years on the bench his fingers itched to continue more aggressive manipulations of mortgages and real estate. In 1870, when he was 57 years old he resigned as judge

* For the Mellon history the writer is greatly indebted to Harvey O'Connor and his book *Mellon's Millions*.

and frankly went into money-lending and real estate as his main occupation in life. He opened a private bank, T. Mellon and Sons, which became the chief financial institution in Pittsburgh. He had an eye for promising young capitalists and sponsored, among others, the ventures of Henry C. Frick, who became an intimate friend and important business ally of Thomas Mellon's most gifted son, Andrew. The sons were set up in real estate and building business, but shortly Andrew, and later Andrew's younger brother Richard B. Mellon, centered their activities in their father's private bank.

The panic of 1873 almost overwhelmed the bank and for a few months it suspended payments, but after the worst of the storm had passed the bank once more opened its doors. Meanwhile Thomas Mellon and his smart young sons were picking over the financial wreckage in Pittsburgh and by a ruthless foreclosure policy they gathered from the crisis many additions to their already considerable real estate holdings. About 1885 the elderly T. Mellon retired and Andrew became the head of the family and its most astute financier.

Andrew Mellon went through the motions of resigning from his banks and corporations when he entered the Treasury in 1920 but Harvey O'Connor in *Mellon's Millions* has assembled abundant evidence that while Andrew Mellon was in Washington he was consulted when important decisions were pending in the affairs of his aluminum trust. O'Connor tells, also, how the Mellon banks had arranged in 1931 to take over their tottering rival, the Bank of Pittsburgh, but before the deal could be put through Andrew must be consulted. Andrew, head of the U. S. Treasury, vetoed the proposition: Why take on such a responsibility? The depositors would shift to a Mellon bank, anyway!

But Andrew had built up a corps of smart administrators. The family affairs, closely guarded wherever possible from outsiders' prying eyes, were chiefly in the hands of his younger brother Richard (who died in 1933) and William L. Mellon, the son of his oldest brother. Associated with them are perhaps a dozen Mellon men, executives of their banks and most closely held corporations.

Banking and Pittsburgh real estate are still an important part of the Mellon wealth and power. The old private bank was in 1902 succeeded by the Mellon National Bank, but their central financial institution has long been the Union Trust Co. of Pittsburgh which owns the Mellon National Bank and straight through the crisis has paid a "satisfactory" annual dividend of 200%. At least nine other Pittsburgh banks and fifteen to twenty banks in small western Pennsylvania towns are directly Mellon-controlled.

Their real estate in Pittsburgh includes much of the most valuable downtown property and before the crisis it was estimated as worth $40,000,000.[1] Besides this, at least three large Pittsburgh hotels are under their financial control. Another important offshoot from their large real estate holdings has been the Mellon-Stuart Co., the leading firm of building engineers and contractors in Pittsburgh. And to keep in the family

the profits of fire insurance on Mellon buildings, Andrew organized in 1901 the National Union Fire Insurance Co., which has built up a nationwide business and owns three subsidiaries.

Early in his career Andrew Mellon realized how real estate owners and the managers of public utilities can play into one another's hands. He saw to it that the family got in on the ground floor in the companies that provided Pittsburgh with traction, electricity and natural gas. As steel towns grew up around Pittsburgh, Mellon real estate, Mellon banks, Mellon trolleys, Mellon water companies, and Mellon electric light gathered in their toll from the steel companies and their workers.

From real estate, the old Thomas Mellon had early gone into the development of coal mines. Then at the turn of the century, Andrew Mellon sponsored two coal combines in western Pennsylvania which were merged in 1916 as the present Pittsburgh Coal Company. These mergers floated in the boom of the Spanish War and the boom of the World War were greatly overcapitalized, but the Mellons took chiefly bonds and sold most of the doubtful stock to others.

## *Aluminum and Oil*

The family's first plunge into management of a manufacturing company was taken under Andrew Mellon's leadership in 1889 when T. Mellon & Sons granted a $250,000 credit to three young metallurgists who had developed a cheap process for making aluminum. The credit was granted on condition that the Mellon family be given control of their company. That control has continued to the present day, and the company has grown to a large and exceedingly profitable monopoly. It owns all the important reserves in the United States of the bauxite from which aluminum is derived, and it is the sole American producer of the refined metal. The monopoly is headed up in the Aluminum Co. of America and Aluminium, Ltd., of Canada. Mellon's monopoly has weathered several legal attacks from competitors, from the Department of Justice, and from the Federal Trade Commission and continues to function undisturbed. It is the outstanding 99% monopoly in American manufacturing industry.

The World War brought a sudden increase in demand for aluminum and the monopoly pushed up its prices of refined metal accordingly: from 19 cents in 1914 to 60 cents and more in 1916.

> . . . the United States had been in the fray nearly a year before the War Industries Board's price-fixers got round to aluminum. . . . On March 15, 1918, aluminum was fixed at 32 cents, 3 cents under contract rates but around half the market quotation for speculative orders. Ten weeks later it was boosted to 33 cents.[2]

After the war, the price was allowed to slip downward, but during the post-war revival it was pushed up again. After the crisis it was held around 23 cents a pound until February, 1934, when it was allowed to drop 4 cents, back to its pre-war level.

Aluminum smelters have sought the cheapest possible source of power and to secure this, Aluminum Co. of America has had a strong minority interest in the development of Niagara Falls Power Co., which is now part of the great Morgan utility combine, Niagara Hudson Power Corp. The aluminum trust also owns more than half the stock of the Duke-Price Power Co., with its hydroelectric plant on the Saguenay River in Canada. Aluminum subsidiaries have developed a hydroelectric plant at Calderwood, Tennessee.

Mellon aluminum companies have reached far beyond the United States and Canada, acquiring valuable bauxite reserves in Dutch Guiana and British Guiana, in France and Yugoslavia, and plants in Norway, Switzerland, England, Germany and India. They have marketing agreements with and part ownership in all the important foreign aluminum companies, and their monopoly in the United States has been further buttressed by a tariff on imports of the refined metal. Aluminum Co. of America and the German chemical trust (I. G. Farbenindustrie, A.G.) jointly control Magnesium Development Co., which has exclusive American rights to the German trust's patents and processes for the use of magnesium.

About the same time that Andrew Mellon was beginning to develop his aluminum monopoly, his nephew William L. Mellon was starting a career in oil. With the family's backing, he went into producing in western Pennsylvania and West Virginia and built a network of more or less local pipe lines. Then in 1893 he built a $2,500,000 pipe line across Pennsylvania to a refinery at Marcus Hook on the Delaware River. This pipe line challenged the Standard Oil's pipe line monopoly and was of such strategic importance in the Rockefeller scheme that the Mellon company was able to exact a profitably high price when two years later it sold the pipe line to Standard Oil.

The Mellon family's real fortune in oil came later, with the opening of the first Texas oil well in 1901. The prospector who struck the great Spindletop gusher had had support from Colonel J. M. Guffey, a Pittsburgh oil man, but Guffey's resources gave out before the gusher was capped and equipped. Once more the Mellon bank extended credit and bought stock enough to secure control of a new J. M. Guffey Petroleum Co.

Getting in on the ground floor in the rich new Texas fields and having Mellon wealth to provide tankers and build refineries, pipe lines, and a distributing and retailing system, this company from which developed the Gulf Oil Corp. was able to hold its own against the Rockefeller monopoly.

After the war, Standard Oil Co. of Indiana wanted to absorb Gulf Oil, but the Mellons stood out for $800 a share and rejected the $550 a share (to be paid in Standard of Indiana stock) which the Rockefeller company was willing to give.[8]

Gulf Oil Corp. is to-day the second largest oil company in the United States outside of the Standard Oil group. It operates valuable properties in Venezuela and has a small share—with the Standard companies and

British and French interests—in the oil fields of Iraq. For nearly twenty years it operated in Mexico. One of the scandals of the Mellon regime in the Treasury was concerned with the methods by which the government aided Gulf Oil in the negotiations for the extension to Gulf Oil and the Morgan-controlled Carib Syndicate of the valuable Barco Concession in Colombia.

Quite early in the company's career, Guffey was crowded out in a way that roused his undying hatred of the Mellon family. Gulf Oil Corp., with its total resources valued at half a billion dollars (after depreciation is deducted) is believed to be nearly 90% owned by the Mellon family.

## *Other Industrial Interests*

In addition to their dominant position in western Pennsylvania banking, traction and real estate, the Mellon family has had a considerable interest in steel. In December, 1899, about a year and a half before Morgan organized the U. S. Steel Corp., Andrew Mellon's intimate friend and ally Henry C. Frick had a bitter quarrel with Andrew Carnegie and withdrew from the Carnegie Steel Co. of which Frick had been chairman. Frick and Mellon together set up Union Steel Company as a rival to Carnegie's company and within a few years this was developed into a small but well rounded corporation, seriously annoying to the new steel trust. By threatening to build a rail mill, Mellon and Frick were able to sell Union Steel to the U. S. Steel Corp. on their own terms. The company had been capitalized at $1,000,000 and had no bonded debt outstanding. After negotiations were begun, Union Steel increased its capital stock to $20,000,000 and issued bonds for $45,000,000.[4] The merger gave the Mellon family no direct representation in U. S. Steel, except through their friend and ally Frick, who went into U. S. Steel and continued a director until his death in 1919. The Mellon interests are, however, supposed to hold a considerable minority block of U. S. Steel shares.

More important than this flyer in steel were Mellon ventures in heavy steel products. Their Forged Steel Wheel Co. was bought by American Rolling Mill Co. in 1927, and paid for in bonds and preferred stock in that company. Their Standard Steel Car Co. was absorbed in 1929 by Pullman, Inc. Their McClintic-Marshall Construction Company, which manufactures structural steel and erects bridges and steel work for buildings, was merged in 1931 with Bethlehem Steel Corp.

The family has also had for many years a minority interest in Crucible Steel Co., important in the growing field of alloyed steels, and in Pittsburgh Steel Co. Both of these minor steel companies are closely tied up with the Mellon banks. Related to steel is their interest in Harbison-Walker Refractories Co., largest manufacturer of fire brick.

The latest important developments of Mellon power have been in the Koppers Co. and in public utilities. They organized the Koppers Co. originally to build by-product coke ovens under patents developed by

Heinrich Koppers, a German technician who had come to the United States. When the United States entered the World War, the Mellons through the Alien Property Custodian secured the shares owned by Heinrich Koppers at a figure far below their market value. To-day, the original company that built by-product coke ovens is only one small subsidiary in a large group of companies which include coal mining (chiefly in West Virginia), manufacture of coke, distribution of the gas manufactured as a by-product of the coke plants, and manufacture of tar and its products. Koppers subsidiaries' coal mines, plus the coal mines owned by Massachusetts gas companies under Mellon control, plus Pittsburgh Coal Company, plus the coal mining subsidiaries of Mellon manufacturing companies, combine to make the Mellon bituminous coal interests second only to the bituminous interests of the U. S. Steel Corporation subsidiaries which among them have the largest coal producing capacity in the United States.

In municipal gas, besides this tangle of Koppers interests, the Mellon family controls Eastern Gas & Fuel Associates (New England); and Brooklyn Borough Gas Co. and Brooklyn Union Gas Co. Mellon is probably the strongest single group in the giant United States Electric Power Corp. which through a chain of subsidiaries has attached to itself the electric light and traction system of Pittsburgh.

Closely tied in with utilities are the electrical manufacturing companies. The Westinghouse companies were developed in Pittsburgh with Wall Street backing but for several years the Mellon family has been represented in both Westinghouse companies. With their increasing interest in electric utilities, the Mellons have also increased their holdings of Westinghouse Electric & Manufacturing Co. and since 1931 W. L. Mellon has been a member of its executive committee while at least two other Mellon men sit on the board of directors.

Other Mellon companies touch on the chemical industry. Their Pittsburgh Plate Glass Co. has various chemical products. Through a subsidiary, Southern Alkali Corp., it is tied in with the American Cyanamid Co., a chemical company engaged in fixation of atmospheric nitrogen,—and in notorious lobbying for private operation of the government power plant at Muscle Shoals. George G. Allen who represents the dominant Duke interest in American Cyanamid is also a director of Aluminum Co. of America. H. C. McEldowney represented the Mellon group in American Enka Corp.,—a $15,000,000 rayon company—until his death in 1935.

More indirectly the Mellon family is tied up with the Union Carbide and Carbon Corp.; three of this company's Canadian subsidiaries have important directors in common with Mellon Canadian aluminum companies; and E. G. Acheson, president of a Union Carbide subsidiary at Niagara Falls, is a director of the Mellons' Carborundum Co., a relatively small but highly profitable concern manufacturing abrasives and glue.

### *Mellon Power*

The Mellon interests are strategically distributed for further growth. Aluminum is finding its way into new uses, and may displace steel for railway cars and auto bodies and for certain structural uses. War will pour new profits into the Mellon hands, partly through the war uses of aluminum and even more through the war chemicals which the Koppers Company, American Enka and American Cyanamid are equipped to supply.

In reviewing this impressive array of Mellon interests, we must guard against picturing them as the most powerful financial group in the United States. In 1925, Andrew W. Mellon and his brother Richard B. Mellon between them paid over $3,000,000 of federal income tax, but this was less than half the taxes paid by John D. Rockefeller, Jr., and also considerably less than the total paid by Henry and Edsel Ford. Whether Mellon family wealth has since then pushed ahead of Rockefeller wealth, as some writers are inclined to believe, is certainly debatable. The basis for estimating Mellon wealth is even scantier than the basis for estimating Rockefeller wealth. At least, it is clear that the Mellon family belongs among the topmost three or four, so far as actual holdings and income are concerned.

Whatever the truth about their relative wealth, the Mellon group clearly has less power than the Rockefeller or the Morgan group. For example, with the possible exception of United States Electric Power Corp., not one of the billion-dollar corporations is controlled by the Mellon family. They are represented on the board of Pennsylvania Railroad and on the board of Union Pacific Railroad, but neither of these roads is under Mellon control. The Mellon companies, although strongly entrenched and profitable, are all considerably below the billion-dollar class.

So also in the field of banking. Mellon interests were represented until 1933 on the Morgan dominated Guaranty Trust Co. and Bankers Trust Company in New York City which ranked third and sixth respectively among commercial banks in the United States.* But the *Mellon-controlled* banks are not among the largest twenty. Even lumping together the deposits of Union Trust Company and its subsidiary, the Mellon National Bank, we find that these dominant Pittsburgh banks are out-distanced not only by 12 banks in New York City but by at least one bank in each of the four cities, Chicago, Boston, Los Angeles and San Francisco.

Attempting a statistical estimate of Mellon financial and industrial power we find the Mellon group dominant in about 35 banks and insurance companies and in about 40 non-financial corporations having combined total assets of $4,250,000,000. This does not include the Mellon real estate holdings. The Mellon group is directly or indirectly represented—usually with a strong Wall Street group—in other banks and

* Bankers Trust had moved up to fifth in rank before Jan. 1, 1935.

corporations having about $13,000,000,000 of total assets. This larger group includes eleven banks and corporations clearly under Morgan influence, with assets of $6,000,000,000; and three companies close to Kuhn, Loeb & Co. with assets of $4,000,000,000; and 29 other banks and corporations, with assets of $2,900,000,000, which are less directly linked with Mellon but in some of which Mellon may be the dominant influence.

### *Mellon Workers*

Mellon companies have a hard and brutal policy with little pretense of philanthropy. The Mellon-dominated Pittsburgh Coal Co. was the first in Pennsylvania to break away in 1925 from their agreement with the United Mine Workers of America and to start the systematic drive of cutting coal mine wages. When a little group of Senators went to Pittsburgh for its official tour of Pennsylvania mine fields during the 1927-28 strike, Pittsburgh Coal sent its mine superintendents the following letter:

> The United States Senate investigating Committee is now visiting the Pittsburgh district. Clean up all unsightly conditions. Keep the police in the background; avoid all arrests; instruct our men to keep out of trouble. If the committee desires to question any of our employees, see to it that you present men you can trust and who can be depended upon to give the right kind of answers. If you are examined by the committee, do not answer any questions you think might be harmful to our interests. The company will protect you.
>
> The company has mailed a spirited letter to each individual employee. If you know of any unsatisfactory condition in the company camps or barracks, see that it is eliminated at once.[5]

It was Pittsburgh Coal Co. private police who tortured and beat to death at their barracks in February, 1929, the miner John Barkoski. Although the district attorney described it as one of the most brutal murders he had ever investigated, the private gun-thugs involved were defended by Mellon lawyers and were let off with light sentences. Mellon agents also shot and killed a little storekeeper at Arnold City who had persisted in sheltering the workers' relief office.

Mellon company towns are notorious. Perhaps the worst company town lease in the country is that used by W. J. Rainey, Inc., one of the many Koppers coal mine interests.

> The worker agrees "to do no act or thing, nor suffer or cause the same to be done, whereby the public or any person or persons whomsoever, may be invited or allowed to go or trespass upon said premises, or upon said private ways or roads, or upon other grounds of the Lessor, except physicians attending the Lessee and his family; teamsters or draymen moving Lessee and his family belongings into said premises or away from the same; and undertakers with hearse, carriages and drivers, and friends, in case of death of the Lessee or any member of his family." [6]

O'Connor in *Mellon's Millions*[7] tells of Governor Pinchot's plan in the winter of 1931-32 for a state bond issue to raise funds for relief of the desperately needy unemployed workers in Pennsylvania. Pinchot was unable to persuade the wealthy Secretary of the Treasury to lend a million dollars at 4%, and as a matter of fact the proposition fell through. But while Pinchot was waiting to see Mellon about this matter, Mellon's secretary had shown the Governor some rare old paintings recently purchased for $1,700,000.

Under the Democratic Roosevelt regime, the Bureau of Internal Revenue prepared a case against Andrew Mellon, Republican ex-Secretary of the Treasury, and offered public proof that he had defrauded the federal government of $1,411,948.49 by manipulation of his properties—to create fake "losses"—and by concealment of $5,000,000 of taxable income in connection with his income tax for the year 1931. Incidentally they revealed that Mellon had admitted income and capital profits amounting to $10,890,485.40.[8] The outcome of the case is still unsettled.

Mellon as Secretary of the Treasury had allowed income tax refunds and abatements amounting to nearly three billion dollars, including more than $14,000,000 to corporations in which he had a considerable interest and more than $400,000 to his own personal account. But it is one thing to dispense "velvet" from public funds to the rich and the great who own the country anyway, and it is quite another thing to give relief to starving jobless workers. *They* must be made to earn what they receive. Early in the crisis Andrew Mellon sponsored the "Pittsburgh Plan" of giving just enough public relief work to heads of families to prevent quick starvation. And he summed up the benefits of the "plan" in a public appeal in November, 1931:

> It "helps to maintain that self-respect which is so essential if people who are able and willing to work are to be spared the bitter experience of receiving money for which no compensating labor has been given in return."[9]

Of course, the Mellon family, far and away the wealthiest in Pittsburgh, has to come across with contributions in six figures for the community chest, but they notoriously do not meet the quotas assigned to them. Their companies expect workers with jobs to contribute for the relief of workers without jobs. And if funds fall short, well, after all, what can workers expect?

As yet Mellon sees no need of philanthropy or social insurance as a safeguard against revolution. Meantime, he is well satisfied with his career. The *New York Times* (January 20, 1929) quoted him as saying: "I would not exchange the period in which I have lived for any other in the world's history."

CHAPTER V

# THE OLIGARCHY

THE same forces that have made possible these tremendous financial empires, with their power reaching into all basic industries and circling the globe, have brought an unstable interplay of competition and close collaboration among the several groups. Even when rival finance capitalists are both interested in the same great concern we may be sure that below the apparent coöperation there is an undercurrent of competition, each group striving for greater power and privilege.

## *Morgan and Rockefeller*

Morgan and Rockefeller work together, as we have seen, in some of the largest corporations in the United States—notably in the Morgan-controlled American Telephone & Telegraph Co. and New York Central Railroad Co. and in Columbia Gas & Electric Corp. in which Morgan influence seems to dominate. Morgan has floated debentures (bonds) for Rockefeller's Standard Oil Co. (New Jersey), and Morgan's Bankers Trust Co. has long been represented by one of its vice-presidents on the Rockefeller Consolidation Coal Co. The Rockefeller Radio City real estate project in mid-town New York brought a new alliance, with Rockefeller's leading corporation representative, Bertram Cutler, joining the board of the Morgan-created Radio Corp.

Meantime a continuing struggle for supremacy has for forty years gone forward between them. In the eighteen-nineties and the early years of the present century, this was fought out chiefly in the field of railroad control. John Moody and George K. Turner, writing in 1911 (on "Masters of Capital" in *McClure's Magazine*) lined up the rulers of those days in two hostile groups. J. P. Morgan, George F. Baker of the First National Bank, and James J. Hill, lord of the Great Northern Railway, were on one side. On the other were John D. Rockefeller and his brother William, James Stillman, head of the National City Bank, Jacob H. Schiff of Kuhn, Loeb & Co., and, until his death in 1909, E. H. Harriman.

But even then, certain links were developing between these hostile groups. Schiff, of Kuhn, Loeb, for example, joined the Harriman-Rockefeller combine in reorganizing the Union Pacific only after he was personally assured by J. P. Morgan that Morgan did not wish to touch

that road. And when Harriman's fight for control of Northern Pacific became really hot, Schiff and his firm withdrew their support of Harriman, thereby helping to throw the victory to Morgan. "...They might make a foray against the House of Morgan, but war might mean their annihilation."[1] Also Morgan had then, already, a definite interest in the Rockefeller-dominated National City Bank.

Most basic has been the Morgan-Rockefeller rivalry in the field of banking. Ever since William Rockefeller set up his alliance with Stillman, and the Rockefeller brothers gave Standard Oil backing to National City Bank, this financial struggle has proceeded, an occasional skirmish alternating with a tactical truce or even active collaboration. In the course of the years, several banks and insurance companies have been shifted from one group to the other.

The latest open move against Morgan was taken in 1933 by W. W. Aldrich, brother-in-law of John D. Rockefeller, junior, who displaced a Morgan man, Wiggin, as head of the Chase National Bank soon after the Rockefeller family secured control of Chase in 1930. Aldrich demanded legislation which was passed by Roosevelt's special 1933 session of Congress. It forbade investment bankers to hold any directorship on a bank belonging to the Federal Reserve System except by special approval of the Federal Reserve Board; it forbade any man to be director of more than one commercial bank at a time; and it made it illegal for private bankers unsupervised by any banking authority to carry deposits. Boards of directors of banks were reduced to a legal maximum of twenty-five persons and, in the process of reorganizing the large board of the Chase National Bank, most of the Morgan lieutenants were dropped and voting control by Rockefeller directors was strengthened.

In this continuous tug-of-war the balance of power has not yet been shifted. Morgan's domain in which Rockefeller has no visible part represents at least $48.4 billion of corporation assets (as of January 1, 1932), while the Rockefeller domain in which Morgan has no visible part represents at least $15.3 billion of corporation assets. In their large overlapping territory we find $29.6 billion of assets, about two-thirds of them under Morgan dominance.

*Corporate Connections Traced (as of January 1, 1932)*

| | | |
|---|---|---|
| Morgan without Rockefeller | | $48,400,000,000 |
| Rockefeller without Morgan | | 15,300,000,000 |
| Both Groups Represented | | 29,600,000,000 |
| Morgan dominance | $19,300,000,000 | |
| Rockefeller dominance | 5,800,000,000 | |
| Indecisive | 4,500,000,000 | |

These figures do not include real estate, but it is doubtful whether even the large Rockefeller real estate ventures would shift the balance toward the Rockefeller group. (For the companies linked to both groups, see Appendix F, p. 334.)

### *Mellon and Morgan*

Coöperation seems to be as yet definitely stronger than rivalry in the relations between the Morgan and Mellon groups. They work together in several different fields. Some of their interests are in open competition, but in others (like Pullman, Inc., and Niagara Hudson Power Corp.) the conflict is not so apparent.

Mellon interests were until 1933 represented on two Morgan banks in New York, while in western Pennsylvania, where the Morgan U. S. Steel Corp. is the strongest manufacturing interest, the Mellon family dominates banking. Mellon's Union Trust Co. of Pittsburgh is a frequent participator in syndicates organized by Morgan or Morgan banks for the floating of bond issues. Clarence Stanley, who succeeded H. C. McEldowney in 1935 as president of Union Trust, is brother of a Morgan partner. Mellon's only considerable rival in Pittsburgh banking (the Hillman group) is much further removed than Mellon from Morgan influence.

Mellon was in on the ground floor with Morgan in the great utility combine known as Niagara Hudson Power Corp. Mellon is represented on the United Gas Improvement Co., now Morgan-controlled, and on the Columbia Gas & Electric Corp., in which Morgan and Standard Oil are both interested. In recent years important Mellon companies have merged with the Morgan-dominated Pullman, Inc., and Bethlehem Steel Corp. These mergers have carried Mellon representation into the management, and have meant an actual share in control of Pullman. Mellon and Morgan are jointly interested in the so-called Barco oil concession in Colombia. In electrical manufacturing, the Mellon interests were represented on Morgan's General Electric Co. until the death of H. C. McEldowney in 1935. They are strong in Westinghouse Electric and Manufacturing Co., which has in recent years been identified with Kuhn, Loeb & Co., and Rockefeller, and not with Morgan.

Mellon men have never been on the topmost board of the New York Central Railroad Co., but they are an important factor on the boards of New York Central subsidiaries running into Pittsburgh.

Along with these closely allied interests are the three strong Mellon corporations—Gulf Oil Corp., Koppers Co., and Aluminum Co.—where Mellon seems to be operating not as a friendly ally of the Morgan group but as a strong independent force. Also Mellon has a large minority holding in U. S. Electric Power Corp., one of the largest utility combines outside of the Morgan sphere. Mellon gas utilities seem to operate independently of Morgan and to hold fields—in Brooklyn, for example—which Morgan utilities would naturally wish to appropriate.

And, most important, the Mellon family has a minority representative on the Pennsylvania Railroad. Andrew Mellon's son-in-law, D. K. E. Bruce, was recently added to the board of Union Pacific Railroad. These are the largest two railroad systems which function without benefit of Morgan.

How competition continues or new competition develops between financial groups along with close coöperation in certain fields is sharply emphasized by the relations of Morgan and Mellon to the new rivalry between steel and aluminum. Morgan and, to a much smaller degree, Mellon are heavily committed in steel and in certain manufacturing industries which have been the chief consumers of steel. Morgan especially stands to lose if aluminum comes into general use for railway cars, automobile bodies, and bridge and building construction. But Mellon's aluminum trust, in which Morgan has no visible direct participation, will grow enormously and will pour still greater profits into Mellon's hands, compensating Mellon but not Morgan, insofar as aluminum displaces steel.

### *Rockefeller and Mellon*

Outside of companies in which Morgan is the dominant power, the joint interests of Mellon and the John D. Rockefeller group are limited to three companies.

Mellon's Gulf Oil Corp. as an "independent" competitor of Standard Oil functions with a certain measure of friendly agreement with Standard Oil companies in the United States and a small joint interest in the Near East Development Corp. in Iraq.

United Light & Power Co., in which the Mellon group has a considerable minority interest, passed in 1933 under Rockefeller control, when the Chase National Bank acquired the dominant block of shares (42% of the voting stock).[2]

And we have noted the entrance of Rockefeller interests in Westinghouse Electric & Manufacturing Co. in which Mellon holds a strong position.

Otherwise there appears to be no Mellon interest in any company, financial or industrial, dominated by the John D. Rockefeller group.

But Percy A. Rockefeller and Mellon have been jointly interested in the relatively small American Enka Corp.

### *Principal Secondary Groups*

All other financial groups in the United States are distinctly secondary to these outstanding three. A few, like the Mellon group but on smaller scale, have at the same time an independent interest in some field or fields of activity, and a considerable measure of coöperation with the inner Wall Street powers. We shall review briefly the most important of these secondary groups which represent the fusion of banking and industrial capital.

*Kuhn, Loeb & Co.* is an investment banking house started in 1867, which grew rich in the earlier years through the importing of German capital for the railroads of the southwest. Through the Warburg family, it has been for many years loosely connected with a much older private

banking house in Hamburg. But Kuhn, Loeb & Co. was exceedingly patriotic in its Americanism during the World War, and afterwards the firm took on Sir William Wiseman, who had been during the war a special agent of the British government in the United States.*

Although Jacob H. Schiff, leading partner in the pre-war years, backed E. H. Harriman and William Rockefeller, Morgan and the Kuhn, Loeb firm have long had a sort of gentlemen's agreement to respect each other's territory in the railroad world. (See above, p. 72.) Railroad securities are still the firm's chief material and several roads have continued to be known as Kuhn, Loeb roads. Practically all of them except Union Pacific, and Chicago, Milwaukee, St. Paul & Pacific have now some link also to the Morgan interests.

In 1929, Kuhn, Loeb took a step that was not only independent of Morgan but directly opposed to Morgan when the firm helped to organize Pennroad Corp. This holding company was set up by Pennsylvania Railroad interests to evade the restrictions of the Interstate Commerce Commission and block the expansion plans of the Morgan-Van Sweringen combination. But a tid-bit was given to the Morgan group in the form of 6,000 shares of Pennroad at an inside price.[3]

Kuhn, Loeb partners hold few directorships and exercise their influence in non-financial corporations chiefly through giving technical financial advice. But by a long-established relationship they are a definite power not only in several railroads but in a few other companies, including Western Union Telegraph Co., Westinghouse Electric & Manufacturing Co. (with Mellon, and now with Rockefeller also), U. S. Rubber Co. (now with duPont), and Hudson & Manhattan R.R. Co., which operates rapid transit from New York to Newark.

The firm has been represented on Chemical Bank & Trust Co. (New York) and on Bank of the Manhattan Co. Paul M. Warburg, brilliant brother of Felix M. Warburg and father of James M. Warburg, resigned from his Kuhn, Loeb partnership in 1914 to be one of the chief executives in organizing the new Federal Reserve System. After leaving the Federal Reserve he created the International Acceptance Bank which has since been merged with the Bank of the Manhattan Co.

Kuhn, Loeb & Co. early entered the game of exporting American capital. In 1904 they floated bonds for the Japanese government to support the war against Tsarist Russia. Since the World War, Kuhn, Loeb & Co. have had a considerable part in the floating of foreign bonds in the United States, but the total foreign issues which they originated amounted to less than one-third of the total foreign issues originated by the House of Morgan.[4]

The total volume of Kuhn, Loeb business has been very large, though always smaller than the Morgan-Drexel total. During the six years, 1927-1932 inclusive, Kuhn, Loeb appeared as syndicate head for the public

* Employed by Kuhn, Loeb & Co. since 1921; partner since 1929. (*Time*, July 3, 1933.)

sale of new bond issues totaling $1,316,275,000; during the same period J. P. Morgan & Co. and Drexel & Co. were syndicate heads in new bond issues totaling $2,197,074,000.[5]

Morgan-controlled banks usually participate in security issues originating with Kuhn, Loeb & Co., and Kuhn, Loeb & Co. often participate in issues originating with the House of Morgan. But the total issues originated by Morgan and other bankers in which Kuhn, Loeb & Co. took some participation amounted to only $688,762,000, and "participation" means that only an unstated fraction of this amount passed through the hands of Kuhn, Loeb & Co.

Kuhn, Loeb's secondary position is indicated by the fact that when the important Democratic lawyer, James W. Gerard, Wilson's ambassador to Germany, drew up in 1930 his list of 59 men who rule the United States, he included President Atterbury of the Pennsylvania Railroad and a few other "independent" capitalists, along with Morgan, Rockefeller and Mellon and large groups of Morgan and Rockefeller lieutenants. But not a single Kuhn, Loeb partner was on the list.

Otto H. Kahn, the partner who testified for this banking house before the Senate committee investigating stock exchange practices in June, 1933, stated that

> ... it has long been our policy and our effort to get our clients ... by an attempt to establish a reputation which would make clients feel that if they have a problem of a financial nature, Dr. Kuhn, Loeb & Co. is a pretty good doctor to go to.[6]

This reputation had been considerably shaken by the early default of a 90-million dollar Chilean bond issue (sponsored in the United States by Kuhn, Loeb & Co. and Morgan's Guaranty Trust Co., jointly), and by the collapse of Pennroad Corp., which had bought its railroad stock at the peak of the market in 1929. Of course there is no real difference in standards among the several leading capitalists. It happens, however, that Kuhn, Loeb & Co. had also taken the lead in the reorganization of Chicago, Milwaukee, St. Paul & Pacific Railway, which was exposed in *The Investor Pays,* by Max Lowenthal. This book is an excellent liberal analysis of the way in which big capitalists utilize a receivership or a bankruptcy to make profits for themselves at the expense of the small capitalist.

*Old Boston Houses.* The Pujo Report on the Money Trust (in 1913) said of Lee, Higginson & Co. and Kidder, Peabody & Co.:

> Closely allied, and indeed related to this inner group, (i.e. Morgan) practically as partners in many of their larger financial enterprises, are the powerful international banking houses of Lee, Higginson & Co. and Kidder, Peabody & Co., with three affiliated banks in Boston—the National Shawmut Bank, the First National Bank and the Old Colony Trust Co.—having at least more than half of the total resources of all the Boston banks; also with interests and representation in other important New England financial institutions.[7]

Since before the Civil War Lee, Higginson & Co. have been closely tied up with the development of New England industry and banking. Later they were associated with Morgan in U. S. Steel Corp. and American Telephone & Telegraph Co., but since the World War Lee, Higginson & Co. have drifted further from the Morgan firm. They have developed several independent industrial ties involving active competition with Morgan companies and including E. G. Budd Manufacturing Co. (with Brown Bros.) and Nash Motors, Wheeling Steel, Lima Locomotive, and Otis Elevator. They played in with Percy Rockefeller in three of his companies: American Enka Corp. (also Mellon), Air Reduction Co., and Remington Arms (until it merged with duPont in 1933).

Until the reorganizations of 1933 they retained representation on Morgan's Bankers Trust Co. and Guaranty Trust Co. and on Chase National and National City banks. One of the partners, Jerome D. Greene, had been on John D. Rockefeller's personal staff and continues as a member of the executive committee of the Rockefeller Foundation and a director of the General Education Board. With Percy A. Rockefeller, Lee, Higginson took up the great super-swindler Kreuger and became the chief American bankers for his international match trust.

It is characteristic of capitalist confusion that while Lee, Higginson played the Rockefeller game they were also the chief American bankers for the great Rockefeller enemy, Deterding, and subsidiaries of his Royal Dutch-Shell.

During the six years, 1927 to 1932 inclusive, the Lee, Higginson firm was syndicate head for floating $759,818,000 of new bond issues and participated to an unstated amount in other bond issues totaling $3,231,832,000.[8]

The collapse of Kreuger and the exposure of his exceptional crookedness was a severe blow to Lee, Higginson & Co. The chances are against their extending their independent power. But even before the Kreuger revelations, Lee, Higginson & Co. had been losing their importance, with the relative decline of New England industry. They had dropped into a distinctly secondary place, active chiefly as allies in certain Morgan and Rockefeller affairs.

Kidder, Peabody & Co. had been for years the American representatives of the British house of Baring Bros., but in American affairs they played in faithfully with Morgan. Their chief independent industrial interests were in New England. Early in the crisis, the firm barely escaped bankruptcy and was saved only by a drastic reorganization.

While these private investment banking houses have declined, the fusion of banking and industrial capital in New England has progressed to a high degree of concentration through the First National Bank of Boston, which now controls the Old Colony Trust Co. Until the reduction of banking boards under the Bank Act of 1933, the directors of the First National Bank of Boston constituted a parliament of Boston bankers and of capitalists from all the important New England industries—railroads, utilities, textiles, textile machinery, shoes—and of the chief corporations

operating elsewhere but built up by New England capital—United Fruit, U. S. Smelting & Refining, Calumet & Hecla (the bonanza copper company of an earlier day), and New England Fuel & Transportation (recently brought under Mellon's Eastern Gas & Fuel Associates). The bank has had also strong cross ties with General Electric Co. and American Telephone & Telegraph Co., both directly dominated by Morgan. Of course, New England railroads and utilities and many of the industrial corporations have also their own direct links with Wall Street. The position of the First National Bank of Boston resembles that of a trusted and powerful provincial council operating within the great Morgan empire.

*Brown Bros., Harriman & Co.* was created on January 1, 1931, by a merger of Brown Bros. & Co., the oldest banking group in the United States, with two firms set up since the World War by the sons of E. H. Harriman.* The merger created an important new unit in the fusion of banking and industrial capital. Both the Browns and the Harrimans brought to the new firm a strong tradition of imperial finance along with a large measure of independence.

The Brown firm was a direct offshoot from Alexander Brown & Sons, Baltimore, which had been established in 1800. Their early business as international merchants and dealers in foreign exchange had led to a British branch in 1810, which became Brown, Shipley & Co., and a Philadelphia branch set up as Brown Brothers in 1818. After the panic of 1837 the merchandising was given up and they concentrated on the development of these three as modern private banking houses. These are still closely interrelated, although Brown, Shipley & Co. has been technically separate from the American firms since early in the World War.

Brown, Shipley & Co. has long had important British partners, including for many years a member of Parliament from South Lancashire and twice losing a partner through his promotion to become an executive of the Bank of England. Montagu Norman, the present governor of the Bank of England, was previously a Brown, Shipley partner, his career repeating the career of his grandfather.

Alexander Brown & Sons is notable to-day chiefly as the banking house which has headed a syndicate for floating over a billion dollars worth of Federal Farm Loan bonds since these were first issued in 1917.

The American houses played a large part in the early development of American capitalism, backing the first railroad (Baltimore & Ohio) in the late 1820's and the first American-owned line of transatlantic steamships in 1847. They participated with Morgan and Kidder, Peabody in the reorganization of the Reading Railroad in 1887.

The loan to Nicaragua arranged by Brown Bros. and J. & W. Seligman & Co. in 1911 was secured by a financial protectorate which initiated

* These Harriman interests were distinct from the now defunct Harriman National Bank & Trust Co. Under the Banking Act of 1933, the Brown-Harriman group set up two separate firms: Brown Bros. Harriman & Co. became a private commercial bank; Brown Harriman & Co., Inc., became investment bankers.

definite imperialist control over that country. With others, including Morgan's Guaranty Trust Co., Brown Bros. set up in 1915 a special group of banks (later absorbed by the Royal Trust Co. of Canada) to finance Latin-American trade. They participated, with Morgan, in several important war loans, but since the war the house has played a relatively minor role in the exporting of American capital, initiating only a quarter of a billion dollars of foreign bond issues. They are linked to commercial banks in New York and Philadelphia which have only indirect connections with Morgan interests. Their strongest post-war financial connection seems to have been the direct links of the American house with some of the largest British insurance companies.

Brown Brothers' few current industrial connections included E. G. Budd Manufacturing Co. (with Lee, Higginson); Sidney Blumenthal & Co. (silk); American Bank Note Co.; Munson S.S. Lines; Grand Union Co. (grocery chain); and Gold Dust Corp. (with Morgan). When the British-controlled Cunard S.S. Co., Ltd., was floating bonds in 1927 and 1929, Brown Bros. managed the issues in the United States.

E. H. Harriman, in his day the most powerful rival of J. P. Morgan in the field of railroad control, dreamed of building a transportation system that would circle the globe. When he died in 1909 he had steamships on the Pacific but his intrigues with the Japanese for joint exploitation of Manchuria and the building of Manchurian railways had failed to bring results. His sons, whose firms have now merged with Brown Bros., still have large holdings in Union Pacific Railroad, Illinois Central Railroad, Delaware & Hudson Co., and Western Union Telegraph Co., in all of which they are closely associated with Kuhn, Loeb & Co. They are said to be "heavily interested" in the Morgan-dominated Southern Railway[9] and in the Texas & Pacific Railway, now controlled by the Missouri Pacific Railroad of the Van Sweringen (Morgan) system. Their interests were dominant in Aviation Corp. They have shipbuilding interests through the American Ship & Commerce Corp. The new firm, Brown Bros. Harriman & Co., secured in 1933 a foothold in Columbia Broadcasting System, nation-wide rival of the Morgan-Rockefeller National Broadcasting Co.

W. A. Harriman was one of the first American capitalists to seek new industrial opportunities in the disorganized countries of Europe in the early post-war years. He also negotiated for mineral concessions in Soviet Russia, but these did not materialize. The most important Harriman interest in Europe is held jointly with the Anaconda Copper Mining Co. and Morgan's Guaranty Trust Co. They control the Silesian Holding Co., whose subsidiaries have metal mines, chemical works, and coal reserves in Polish Silesia.

W. A. Harriman & Co., Inc., was active in selling bonds, but they seldom managed a banking syndicate for the floating of new issues.

Like Brown Bros., the Harriman group has operated chiefly outside of the Morgan sphere of influence in spite of the fact that W. A. Harriman has been a director of the Morgan-controlled Guaranty Trust Co. and

Potter, chief executive of the Guaranty Trust, is active in the Harriman-Anaconda Silesian Holding Co.

*Hayden, Stone & Co.* Charles Hayden, dominant figure in this comparatively young private banking house (organized in 1892), is a Boston capitalist who moved his headquarters to New York. His firm has combined a relatively small investment business—floating new security issues—with a large and active brokerage business. Hayden's interests are extraordinarily diverse and have brought him directorships in about 50 corporations (not counting duplications through subsidiaries). On many of them he holds an inner position as chairman or member of the executive committee. For most of these corporations, Hayden, Stone & Co. has participated in the floating of new securities.

Hayden, Stone & Co. appears with Morgan in a few important companies, including Kennecott Copper Corp.; International Nickel Co. of Canada, Ltd.; Intercontinental Rubber Co., holding rubber lands in Mexico and Sumatra; Carib Syndicate, holding a minority interest in the Barco oil concession in Colombia; American Locomotive Co.; Electric Power & Light Co. (of the Electric Bond & Share group); and Interborough Rapid Transit Co., New York. He is also an important director of Brooklyn-Manhattan Transit Corp., in which Rockefeller interest is probably stronger than Morgan interest.

More numerous are the Hayden, Stone "independent" interests, but most of them are too small to be included in the group of the largest 200 non-banking corporations. The outstanding exceptions, in point of size, are the Chicago, Rock Island & Pacific Railway (now in receivership), of which Hayden is chairman, and the Shell Union Oil Corp., in which the Hayden, Stone firm is secondary to Lee, Higginson & Co. Important but slightly smaller connections include Atlantic, Gulf & West Indies S.S. Lines, Cuban Cane Products Co., Inc., International Cement Corp., Ward Baking Corp., American Woolen Co., and Mack Trucks. The firm has been a leader in promoting aviation.

Through their holdings in Cuban sugar, in Pan-American Airways and Curtiss-Wright Corp., in the Agwi group of steamship lines, in rubber, cement and oil, this banking firm has a strong interest in Latin America.

*Lehman Brothers* and *Goldman, Sachs & Co.* Unlike the groups already mentioned, these two banking houses (which frequently work together) have relatively minor interests in heavy industry and raw materials. But they combine the underwriting and selling of industrial stocks and bonds with active participation in the management of a great number of companies in retail trade and in several branches of light industry. They have also held important directorships in New York commercial banking.

Like the Mellon family, the Lehman family have been personally active in government. Herbert H. Lehman was a partner in the banking house until he became lieutenant governor in New York State under Franklin D. Roosevelt. When Roosevelt moved up to the White House, Lehman became governor of New York. Another brother, remaining out-

side of the banking house, has been a judge for many years and is now in the highest court of New York State. A third brother, a partner in the banking firm, did his bit for the capitalist class by serving as "umpire" in the New York City garment trades.

Lehman Brothers and Goldman, Sachs have developed their financial power in fields formerly neglected by the big inner financial groups, but in a few companies we find one or both of them involved along with Hayden, Stone, or Chase National Bank, or National City Bank. Overlapping of interest with the inner Morgan group is very slight, though this does occur in three New York banks (Manufacturers Trust, Corn Exchange, and Marine Midland) and in R.K.O., National Union Radio Corp., and Associated Dry Goods Co. Also, less directly with Morgan interests, in American Metal Co., Ltd., and a few smaller companies. Two or three of their concerns are sharply competing with Morgan interests. For example, their Sears, Roebuck & Co. with Morgan's Montgomery Ward & Co., and their Continental Can Co. with Morgan's American Can Co.

Lehman Brothers, without Goldman, Sachs & Co., have two important interests in Latin America. Jointly with National Lead Co., which is close to Rockefeller, they control Patino Mines & Enterprises Consolidated, the big tin company in Bolivia. And along with several other groups they are active in Pan American Airways,* which has the monopoly of air transport between the United States and Latin America.

Lehman seems to be the strongest group in the Kimberly Clark Corp., a paper company controlling jointly with the *New York Times* the Spruce Falls Power & Paper Co., Ltd., which supplies the paper used by the *Times*.

Both Lehman Brothers and Goldman, Sachs & Co. have been hit by the crisis. Goldman, Sachs had built up during the boom a string of investment trusts which were among the first financial organizations to crash after the collapse of the stock market in 1929. The survivors were acquired by Atlas Utilities Corp. (now Atlas Corp.), a growing investment trust indirectly but clearly within the Morgan sphere of influence. The firm has also been pushed out from its one important steel connection, Sloss-Sheffield Steel & Iron Co., operating in the Birmingham area, and—along with Hayden, Stone & Co.—withdrew from Warner Brothers Pictures. But it was able to build up a few new banking connections by absorbing in 1932 A. A. Hathaway & Co., an old established house important in the field of discounting commercial paper. Goldman, Sachs & Co. is the only New York group represented on the Minneapolis-Moline Power Implement Co., with which the NRA General Johnson had formerly been identified.

Lehman Brothers had better luck with its investment trust whose assets are within 19% of their original total in 1929. But one of their most important connections in the garment industry, Fashion Park Associates, Inc. (which included Weber & Heilbronner, Brokaw Brothers, and Stein

* Lehman Brothers are also interested in Transcontinental & Western Air., Inc.

Bloch Co.), was compelled first to attempt a reorganization as Raiment, Inc., and then to go into bankruptcy in June, 1933. Also Lehman Bros. withdrew from B. Kuppenheimer & Co. (men's clothing manufacturer) in which they formerly had some interest.

Both firms are deeply involved in Long-Bell Lumber Co. and Studebaker Corp., and Lehman Brothers in Van Camp Packing Co., Inc., all of which are either in receivership or in liquidation from bankruptcy. But such "casualties" of the crisis have left these two houses with greatly diversified connections and a strong position in certain fields.

Either one alone or both together they are active in the following industries:

Shoes and leather, through Brown Shoe Co., Inc., Endicott Johnson Corp., Florsheim Shoe Co., and Amalgamated Leather Companies, Inc.

Shirts and underwear, through Cluett, Peabody & Co., Inc., Manhattan Shirt Co., Phoenix Hosiery Co., Robert Reis & Co., Munsingwear, Inc., A. Stein & Co.

Textiles, through Collins & Aikman Corp., Duplan Silk Co., Van Raalte Co., Inc., and United Piece Dye Works. Lehman Bros. and Speyer & Co. are American bankers for the three interrelated rayon companies (branches of the European rayon trust): American Bemberg Corp., North American Rayon Corp. (formerly American Glanzstoff), and Associated Rayon Corp.

Drugs and cosmetics, through Merck & Co., Inc., McKesson & Robbins (largest drug wholesaler in the country), Coty, Inc., Lehn & Fink Products Co., and Lambert Co. (of listerine-halitosis fake advertising fame).

Food, through General Foods Corp., United Biscuit Co. of America and Pillsbury Flour Mills, Inc.

Glass, through Libbey-Owens-Ford.

Publishing, through Conde Nast Publications, Inc., and Cuneo Press, Inc.

Auto accessories, through Kelsey-Hayes Wheel Corp.

Lehman Brothers are organizing a nation-wide trucking corporation.[10]

Their extremely important activities in retail trade are summarized in a later chapter.

The Lehman family is linked by marriage with the banking house of Lazard Frères; Frank Altschul, head of Lazard, is the brother of Mrs. Herbert H. Lehman. Arthur Lehman's son-in-law, Benjamin J. Buttenwieser, is one of the younger partners in Kuhn, Loeb & Co.

## *Other Big Capitalists*

These financial groups obviously do not complete the roll-call of big capitalists in the United States. But in the main the others fall into one of three categories, none of which represents such a fusion of banking and widespread industrial interests as appears in the groups already described.

(1) Several other investment banking houses and a few wealthy indi-

viduals carry on a large volume of business which represents the fusion of banking and industry, but they are limited in scope, operating only in some one field (notably utilities) or in some one section of the country. Practically, also, most of them have had to tie in with one or another of the big dominant powers. Outstanding names in this category include Halsey Stuart & Co. in Chicago who backed Insull; Stone & Webster and Blodgett whose utilities chain has been linked also with Lee, Higginson & Co., Chase National Bank, and, indirectly, with Morgan; W. C. Langley & Co., coöperating in some projects with the Bonbright & Co. utility front of the Morgan group; H. M. Byllesby & Co., who control jointly with the Mellon group the United States Electric Power Corp.; and the Fleishhacker and Crocker groups in San Francisco who have diversified interests on the Pacific coast. The Fleishhacker interests now work apparently in alliance with the Standard Oil Co. of California, and they are believed to carry a large share of responsibility for the frame-up of Tom Mooney, who organized workers of their traction companies.

(2) A few large banking groups seem to have remained outside of industry, content to make money by floating government bonds and industrial securities but seldom becoming the dominant force in a non-banking corporation. Kuhn, Loeb & Co., as we have seen, claim to operate in this way, and the difference between Kuhn, Loeb & Co. and such houses as Speyer & Co., J. & W. Seligman & Co., and Lazard Frères, may be partly a difference in volume of business. But the long-established relationship maintained by Kuhn, Loeb & Co. with a few of the major corporations in the country seems to put the Kuhn, Loeb house in a different category, among those representing the fusion of banking and industrial capital.

Rivaling Kuhn, Loeb & Co. in volume of business is the house of Dillon, Read & Co. They participated during the boom in some spectacular and highly profitable industrial mergers, but having drawn their banking profits they do not seem to remain for a long-time participation in industrial control. The total of $1,491,000,000 of foreign loans for which Dillon, Read & Co. was primarily responsible from 1919 to 1931 was second only to the volume of foreign loans floated by J. P. Morgan & Co.[11] Their domestic business is less impressive. Comparing the totals of all new bond issues, 1927 to 1932, for which the various banking groups were syndicate heads, Dillon, Read & Co. ranked below Kuhn, Loeb & Co.

(3) Several industrial capitalists have built up large corporations and have been brought into the boards of big commercial banks. Those whose interests continue to be primarily in the control and management of industry with a small secondary interest in banking include such men as the following:

Henry Ford, head of the largest family-owned corporation in the United States and one of the richest men in the world.

The duPont family, whose power was built on the foundation of chemicals and war explosives and who now have joint control with Morgan in General Motors.

The Guggenheim family, controlling American Smelting & Refining, jointly with Morgan controlling Kennecott Copper Corp., and alone the strongest group in the international Chilean nitrate trust which was smashed by the crisis.

The Vanderbilt family, who function on several railroad boards but who operate quietly within the Morgan domain.

The Weyerhaeuser family in the northwest, who have their private empire in lumber but work with the Morgan group on the two Northern railroads.

John D. Ryan (until his death in 1933) and Cornelius F. Kelley, heads of the giant Anaconda Copper Mining Co., tied in with the Percy Rockefeller interests, the National City Bank and Morgan's Guaranty Trust Co.

George W. Hill, president of the American Tobacco Co., which is called an "independent" corporation but has had funds on deposit with J. P. Morgan & Co.

The Duke Estate, which was built up from the old American Tobacco Co. before the "dissolution" of the tobacco trust in 1911 and is now a power in British-American Tobacco Co. and in utilities and has struck up an alliance with the Mellon interests.

E. J. Berwind and his associates who have large bituminous coal properties and a considerable share in the export of coal to Central America and who jointly with Hayden, Stone & Co. control the Atlantic, Gulf & West Indies Lines, jointly with the old National City Bank crowd had holdings in Cuban railroads, and jointly with Morgan are interested in the International Telephone & Telegraph Co. and the Atchison, Topeka and Santa Fe Railway.

This list is far from complete. We have not mentioned, for example, the wealthy packers in Chicago; "independent" steel capitalists in Cleveland and in the Chicago district; several rich coal operators; southern textile magnates; California fruit and vegetable growers, and many others. Also we have omitted entirely the scores of big executives who have won fame and wealth as inside officials, managing great corporations or large commercial banks as responsible lieutenants for the innermost financial overlords.

It was estimated before the crash in 1929 that the richest one per cent of the population owned at least 59% of the wealth in the United States. The federal income tax returns for 1929 showed 513 Americans who admitted personal incomes of more than a million dollars a year and 38,889 admitting personal incomes of more than $50,000 a year. These large incomes have unquestionably been reduced by the crisis, but the contrast between riches and poverty, the few and the many, the capitalist class and the working class has been sharpened since 1929.

In one sense all private wealth is power, for the whole structure of American society has been built up to protect the rights of property and to serve the owners of capital. But within the capitalist class there are many gradations of power. And great numbers of comfortable parasites, including some of the wealthiest men and women in the country along with all the small investors, take no part in the management of the banks and corporations from which they draw their incomes.

Active power, controlling banks, industry and government, is centered

in a narrow inner oligarchy made up of the leaders in the strongest financial groups and their close associates. The inner oligarchy exercises its power through other groups—some of them close allies without independent interests, some of them frankly responsible lieutenants, but more of them semi-independent capitalists operating in their various fields with a measure of flexibility and free initiative, subject always to interference and deliberate destruction if their "independence" threatens the interests of the overlords.

Just as among the three innermost groups, so in the broader reaches of industry and banking where Morgan-Rockefeller-Mellon control is indirect and potential rather than immediate and active, there is constant interplay of competition and agreement, a reaching after special privilege and monopoly, while every man and every group seek to win for themselves the largest possible share of the market, the highest possible profits, and the weakening of all their competitors.

CHAPTER VI

# GUIDING THE STREAMS OF CAPITAL

A "MONEY TRUST" "able to dictate the credits that shall be extended or withheld from the more important and conspicuous business enterprises" was pictured in 1913 in the so-called Pujo Report issued by a congressional committee. Smaller bankers and business men who were being crushed under the "money trust" steam roller were unable to check its progress and concentration of banking power has increased since 1913. One index of this increase appears in the fact that the largest ten commercial banks in New York City had in 1913 about 6% of the total deposits in the United States while by the end of 1934 they had more than 20% of the total. But this by no means tells the whole story of concentration in commercial banking, and commercial banking is only one part of the financial picture.

## *Big Commercial Banks*

Commercial banks are privately owned profit-making institutions for providing short-term credit and receiving deposits. In 1921, after the expansion of the war boom years, 29,236 commercial banks were operating in the United States and its outlying possessions.* The number began to shrink during the economic crisis of 1921-22. Then throughout the prosperity boom small rural banks were failing and strong city banks were merging. These trends pulled down the total number of banks. The economic crisis which began in 1929 cut them even more sharply. In 1934 about 49 out of every 100 commercial banks operating in 1921 had disappeared, but 15,000 were still in operation. This offers a sharp contrast to the Big Five banks in Great Britain, the Big Three of Canada, and the handful of "great banks" in France and Germany. But behind this apparently scattered and highly competitive banking situation in the United States there exist several elements of centralized monopoly control.

First we note the important fact that the largest ten banks (six in New York City, two in Chicago, one in California, and one in Boston) hold nearly one-fourth (24%) of the total deposits in the country.[1] At

* Report of the Comptroller of the Currency. This number includes 8,179 national banks, 18,875 state commercial banks, 1,474 loan and trust companies, and 708 reporting private banks. It does not include 1,601 savings banks.

the top of the list stand three New York banks (Chase National, National City, and Guaranty Trust) each carrying over one billion dollars of deposits and together holding over 10% of the total deposits in the United States.

Next after the leading ten banks, with their 24% of the total deposits, come 41 other banks in the more than $100,000,000 deposit class. Aggregate deposits of these 51 banks account for 46% of the total deposits. (These figures do not include savings banks.)

New York City banks have an important strategic advantage in the fact that for all stocks listed on the New York Stock Exchange the corporations must have a transfer agent and a registrar in New York City. These functions are usually performed by banks. Also in relation to foreign trade and the business of American corporations producing goods in foreign countries, a position of special privilege has been held by the few banks at the top of the list in New York and Boston which maintain foreign branches and do not have to transact all foreign business through correspondent banks.

Large city banks have considerable power over smaller banks. A few have one or two smaller banking affiliates as, for example, National City Bank of New York controls the City Bank Farmers Trust Company. Several are the dominant units in groups of banks held together as subsidiaries of a holding company.* Besides groups which include a large bank there are many other groups of small and medium-sized banks tied together as subsidiaries of a holding company or all controlled by some enterprising capitalist. But most of the groups are small.

Small banks which are independent of the large banks so far as ownership and corporate organization are concerned are practically compelled to acquire a correspondent among the large banks. The small bank depends on its correspondent for credit information, for advice on the purchase of securities, and as a source of short-term credit paper with which to increase and diversify its liquid assets.[2]

Most important as a factor in concentration of control in commercial banking is the community of interest among banks that operate as sepa-

* Bank of America National Trust and Savings Association, San Francisco (4th on the list of commercial banks) is the chief banking unit in the Giannini group controlled by Transamerica Corp. which includes also the much smaller Bank of America, a California state bank, and the First National Bank of Portland, Oregon.

Marine Trust Co., Buffalo (35th on the list), is a subsidiary of the Marine Midland Corp. which controls 21 smaller banks in New York State, including Marine Midland Trust Co. of New York City.

Wisconsin Bankshares Corp. controlling 39 banks in Wisconsin is represented on the $100,000,000 bank list by the First Wisconsin National Bank, Milwaukee.

First Bank Stock Corp. controlling 96 banks in Minnesota and four other states has two subsidiaries in the $100,000,000 group: First National Bank & Trust Co., Minneapolis, and First National Bank, St. Paul.

Northwest Bancorporation's 119 commercial bank subsidiaries include Northwestern National Bank and Trust Co., Minneapolis.

rate corporate bodies but are clearly within the immediate sphere of influence of one or more of the major financial groups. We have already noted, for example, that the Mellon interests control from 25 to 30 banks in and around Pittsburgh.

J. P. Morgan & Co. and Drexel & Co. (the Philadelphia Morgan firm) have always themselves carried on certain phases of commercial banking and the deposits held by the Morgan and Drexel firms rank the Morgan House 17th in the list of large banks in the United States. They are the only private bankers—partnership and not corporation—included among the 51 banks holding more than $100,000,000 of deposits. And Morgan interests in commercial banking extend far beyond the banking activities of the Morgan House itself. Morgan influence can be definitely traced in banks holding one-fourth of all the deposits in commercial banks.

*New York.* The Morgan firm is directly represented by Morgan partners on the boards of three incorporated commercial banks in New York City. Two partners are on Guaranty Trust Co. (3rd largest bank in the United States); three are on Bankers Trust Co. (5th largest); and two are on New York Trust Co. No Morgan partner is now on the First National Bank of the City of New York, but the fact of a large Morgan interest is common knowledge. The chairman, George F. Baker, is son of the first George F. Baker who as president and chairman of this bank was for 50 years a recognized ally of the Morgan firm. All the directors are either officials of the bank itself or of corporations controlled by the Morgan group.* Morgan influence is dominant in these four banks, although Standard Oil is also represented on the New York Trust Co.

Rockefeller interests have since 1930 controlled Chase National Bank, the largest in the United States. They are represented on the Title Guarantee & Trust Co. The Pratt family (of Standard Oil) seems to be the strongest factor in Brooklyn Trust Co. Indirectly both Rockefeller and Morgan are represented on Manufacturers Trust Co. and Bank of New York & Trust Co.

National City Bank, second largest in the United States, was formerly tied to both Rockefeller and Morgan, but Rockefeller interests seem to have withdrawn entirely. Morgan is still indirectly represented by officials of several Morgan-controlled corporations.** Although the Giannini group of California is said to hold the largest single block of stock (11% of the total) and Hearst interests are also directly represented on the board, the bank functions within the Morgan sphere of influence.

Other New York commercial banks on which Morgan is indirectly represented include Central Hanover Bank & Trust Co., Irving Trust Co., Chemical Bank and Trust Co., Marine Midland Trust Co. of New York

* J. P. Morgan and Thomas W. Lamont were directors of the First National Bank's twin company, First Security Co. of the City of New York, until this was liquidated under the Banking Act of 1933.

** Charles D. Dickey, who became a Morgan partner January 1, 1932, was until 1934 a director of National City's affiliate, City Bank Farmers Trust Co.

(also in Marine Midland Corp. which controls this), and United States Trust Co.

Bank of the Manhattan Co. (6th largest commercial bank in New York) is closely tied with Kuhn, Loeb & Co.

*Philadelphia.* Until the changes of 1933-34, Morgan partners were on three of the largest four Philadelphia banks: Pennsylvania Co. (1), Girard Trust Co. (2), and Fidelity-Philadelphia Trust Co. (1); also on three smaller commercial banks in Philadelphia. This direct influence was supplemented by indirect influence through Morgan interests in anthracite coal, railroads, telephones, and utilities, and through personal connections (for example, bank officials on the Morgan favored lists). Such indirect connections persist. It cannot be assumed that the withdrawal of Morgan partners removes these banks from Morgan influence.

*Boston.* Through the telephone trust and General Electric Co., Morgan interests are tied in with the First National Bank of Boston, dominating unit of New England capitalism and the ninth largest bank in the United States. Mellon interests are also represented.

*Chicago.* Continental Illinois National Bank and Trust Co. and First National Bank of Chicago are the most important banks in the Middle West and rank sixth and seventh respectively among all commercial banks in the United States. Again the Morgan influence is carried indirectly but strongly through a network of connections between these banks and Morgan-controlled corporations in the Chicago area, including the telephone trust, railroads, Pullman, Inc., International Harvester, American Radiator, and subsidiaries of U. S. Steel Corp. First National is also tied to Rockefeller, through the president of Standard Oil Co. (Indiana).

*Pacific Coast.* In actual size, the largest banks on the Pacific Coast are the Bank of America National Trust and Savings Association (Giannini) and the Security-First National Bank of Los Angeles, which seem to operate outside of the Morgan and Rockefeller spheres of influence. Giannini is said to be close to Hearst. More closely tied in with railroads, shipping, and utilities are the Fleishhacker and Crocker banks in San Francisco. The Anglo-California National Bank (Fleishhacker) is very strong through its connection with Standard Oil of California and with the biggest shipping interests in San Francisco, which in their turn are interlocked with the Morgan shipping trust on the Atlantic. A large interest in American Trust Co. of San Francisco (which is linked to Hearst) passed during the crisis from Goldman, Sachs to the Atlas Corp., an investment trust operating within the Morgan sphere of influence.

*Other Indirect Links.*—The most important banks in every city outside the financial centers are tied in with the most important non-banking corporations of that city. This is an unfailing rule of modern capitalism. Far beyond these few banks whose connections we have noted, we could follow through and find definite Wall Street links spreading through a much wider sector of commercial banking. The telephone trust (dominated by Morgan, with Rockefeller holding a minority voice in its management) has subsidiaries operating in every state. Each subsidiary has its

own board of directors (selected by the management of the top company which controls the subsidiary) and including leading bankers and industrialists of the region. Railroads and utilities also expect to have local banking representation. The various Standard Oil companies and their subsidiaries cover the country. All such corporations serve as tentacles of the great Wall Street Octopus pulling together into a genuine—though invisible—centralization all the principal units in the banking structure.

Personal favors also play a considerable rôle. Bank officials might be accommodated by loans if the Morgan firm regarded them as "good, sound, straight fellows."[8] So Charles E. Mitchell, whose "good, sound, straight" dealings as chairman of the National City Bank caused a major scandal, was revealed at the Senate hearings in 1933 as personally owing the Morgan firm and individual partners a total running well above a hundred thousand dollars. And "favored lists" of those to whom the Morgan and Drexel firms offered blocks of stock at inside prices, giving opportunity for large profits on the stock market, included not only officials of all the banks on which a Morgan partner was a director but officials of more than 40 other banks scattered from the Atlantic coast to Denver, Colorado.

## *Investment Banking*

Underwriting and selling of bonds and stocks is a business distinct from the trade in short-term credit with which commercial banks are primarily concerned. But there has always been a certain overlapping of interest, and for several years before the crisis all the larger commercial banks either directly or through investment affiliates were active in investment banking for the large profits it provided. Eight commercial banks (including the largest three in the United States) were included in the list of syndicate heads each of which floated more than $100,000,000 of new bond issues during the six years 1927-1932. These syndicates headed by commercial banks or their subsidiaries floated about 42% of the total new bond issues, but the larger share—58% was floated under the leadership of private investment firms.

Under the Banking Act of 1933 commercial banking and investment banking were separated. The speculative overexpansion of investment affiliates of commercial banks had become a source of weakness in the commercial banking system, so such affiliates were either liquidated or set up as independent companies.

The purpose of the following table is to show the principal groups active in investment banking during the height of the "prosperity" boom, before the crisis had seriously checked the expansion of capital investment. The *Wall Street Journal* table on which it is based includes the three years after 1929, but actually the total investment of those years was negligible in comparison with the billions poured into industry during the boom.

LEADING BANKS AND BANKERS HEADING SYNDICATES FOR THE SALE OF NEW BOND ISSUES DURING SIX YEARS, 1927-1932 *

| | |
|---|---|
| Morgan group (J. P. Morgan & Co., Drexel & Co., Bonbright & Co., Guaranty Co., First National Bank, Bankers Trust Co.) | $4,756,500,000 |
| Chase National Bank group (including Harris, Forbes & Co., merged with Chase Securities in 1931) | 3,231,200,000 |
| National City Co. | 1,997,100,000 |
| Halsey Stuart & Co. (backers of Insull) | 1,696,700,000 |
| Kuhn, Loeb & Co. group (including International Manhattan Co.) | 1,603,900,000 |
| Dillon, Read & Co. | 1,132,100,000 |
| Lee, Higginson & Co. (backers of Kreuger) | 759,800,000 |
| Bancamerica-Blair | 730,400,000 |

* Arranged from tabulation in Wall Street Journal, March 22, 1933.

Together these leading groups dominated the floating of more than 60% of the new bond issues of this six-year period. The Morgan group were syndicate heads for about one-fifth of the total volume (19%); Chase National Bank group, about 13%; National City Bank about 8%. But as we have noted (Chapter V) there is always much interplay of interest, and these figures understate the part played by these three groups. The list shows their activities as "syndicate heads"; it does not attempt to show the way in which leading banking houses bring each other into these temporary syndicates, or their relation to the scores of smaller banks and the hundreds of security dealers throughout the country.

In floating large issues the "original" banking house at the top immediately shares its risk with associated houses invited to join with it in handling this particular issue. These associated houses in the syndicate set up other carefully selected groups of smaller bankers, pyramiding down to the retail security dealers each of whom is handed a quota which he must sell unless he is prepared to carry it permanently himself. For the smaller houses an invitation to join such a syndicate is really a command. Two or three refusals would certainly end forever the small firm's opportunity to share in the profits of floating new securities.

Each group in the pyramid passes on the bonds or the stock to the group below it at a price higher than it had to pay. The wide "spread" between the price actually allowed to the corporation or the government by the original banker and the price at which the outside capitalist buys the securities is distributed in these successive discounts among all the intermediate firms. The nearer they are to the top of the pyramid the cheaper the bankers themselves can take for their own investment—and offer to an inside circle of their friends and lieutenants—the choicest offerings in the capital market.

Investment bankers have an unwritten code of "ethics" under which competitive bidding for corporation business is practically eliminated.

The "reputable" houses respect banking relations already established and thereby maintain a wider spread from which to draw their profits. The report on *Stock Exchange Practices* issued by a Senate committee in October, 1934, admits the element of monopoly price-fixing in this field:

> Investment bankers urge that competitive bidding deprives the corporation of valuable financial advice and continuity of service on the part of the investment banking firm most familiar with the background of the corporation. In this connection it is well to observe that *competitive bidding has a tendency to reduce the bankers' "spread."*[4] (My emphasis.—*A.R.*)

Tied in with investment banking is the stock exchange for trading in stocks and bonds. Exchanges exist in several cities but the New York Stock Exchange is the most important stock trading center in the United States. In the capitalist picture of Wall Street, the stock exchange is described as a public market place necessary for the buying and selling of securities. Actually, it is a private, closely owned concern, to which the public has access only through employing a member firm, and memberships were bought for more than half a million dollars during the great post-war boom. Even in 1933 memberships were bought at prices ranging from $90,000 to $250,000.[5]

Most of the trading is carried on with borrowed money. J. P. Morgan & Co., Morgan commercial banks, other commercial banks and individuals and industrial corporations with large cash reserves made large profits from their loans to brokers which totaled over $8 billion at the height of the boom. And much of the trading reflects a manipulation of prices by insiders and professional speculators. They deliberately rig the market against small capitalists who venture into the Wall Street game.

Richard Whitney, until 1935 the head of the New York Stock Exchange, is partner in one of the 32 firms which act as "floor broker" for the Morgan interests. His brother, George Whitney, is a Morgan partner. (See also Appendix G, p. 336.)

## *Controlling the Outlets for Security Issues*

Having undertaken to float a bond issue—at considerable profit to themselves—investment bankers and commercial banks active in this field were not entirely dependent on their syndicate associates and the pyramids of smaller banking houses and retail security dealers as an outlet for the bonds they had underwritten. They exercised some measure of direct control over several important sections of the security market.

So it is not merely public spirit which places financial leaders on the boards of universities and foundations and church and charitable endowment funds where they "generously" supervise the investment of large "social" funds, aggregating over nine billions of dollars throughout the United States.[6]

And it is not unselfish concern for the widows and children of de-

ceased exploiters which leads banks and trust companies to build up the business of serving as trustees for estates, for child-capitalists, and for grown-ups who prefer to play polo or bask on a Florida beach rather than to manage their own investments. Published reports of individual banks are usually silent about this important activity, but the City Bank Farmers Trust Co. told its stockholders in January, 1933, that it was managing $3,657,000,000 of capital for individuals and estates.[7] National banks operating trust departments reported to the Comptroller of the Currency an aggregate of $6,311,700,000 of individual trust assets under their control June 30, 1933.

Mutual savings banks offer another important outlet for the so-called "higher" grade of bonds. About one-fourth of the total $9.7 billion deposits in mutual savings banks are in the largest ten banks, all of them located in New York, Brooklyn, or Philadelphia. The Morgan firm is directly represented on two of these (Philadelphia Savings Fund and Bank for Savings, New York) and indirectly on another two (Bowery and Dry Dock). National City Bank is represented on three (Emigrant Industrial, Williamsburgh and East River). Central Savings Bank includes Peter Grimm, who is believed to work closely with Rockefeller real estate interests.

Also beyond these first ten savings banks we find Morgan partners on the Western Saving Fund Society, Philadelphia, and definite but indirect Morgan representation on Franklin Savings, New York, and Howard Savings, Newark. Seamen's, New York, includes a representative of the National City Bank. Union Dime Savings, New York, is linked with Chase National and Metropolitan Life, both representing Rockefeller interests.

Insurance companies provide the most important large-scale market for bonds and here the centralization of resources and the interlocking with big capital are most marked. Total assets of life insurance companies were estimated at $20.7 billion at the end of 1932. Another $2.7 billion were held by other types of insurance companies (fire, marine, casualty, indemnity, etc.) *

Although 328 life companies were operating in the United States in 1932, 92% of their total assets were held by 31 companies having over $75,000,000 each, and 70% were held by the ten giants having over half a billion each. At the head of the list stands Metropolitan Life, the largest *financial* organization in the capitalist world, with $3.8 billions of assets. It is followed by Prudential ($2.8 billions), New York Life ($2.0 billions), Equitable Life ($1.5 billions), and Mutual Life ($1.1 billion). The other five, with less than a billion but more than half a billion of assets, were in order of size, Northwestern Mutual, Travelers, John Hancock Mutual, Mutual Benefit and Penn Mutual.

* Insurance companies held about 22% of railroad bonds, 35% of public utility bonds, 35% of industrial corporation bonds, and 22% of farm mortgages in the United States according to an article in *Fortune*, May, 1931.

Of these ten life insurance companies, nine with aggregate resources estimated at about $14 billion are indirectly but definitely linked with the leading Wall Street groups. None of these largest companies includes a Morgan partner among its trustees, and only the Equitable Life Assurance Society includes one of the Rockefeller "cabinet." But Morgan has clear indirect representation on every one of the ten companies except the John Hancock Mutual Life. And Rockefeller interests are also indirectly represented on three: Metropolitan, Prudential and Northwestern. Metropolitan is commonly regarded as a Rockefeller company, but the president, F. H. Ecker, has been close enough to the Morgan firm to receive personal inside favors. Like Metropolitan, Prudential is closely tied in with the Chase National Bank but the president of Prudential is on Morgan's Guaranty Trust Co. and the company is interlocked with the Morgan-dominated Public Service Corp. of New Jersey and the New Jersey branch of the telephone trust.

Morgan and Rockefeller have their hands also in a few of the smaller companies. Morgan himself is a director of the Ætna Insurance Co. and is supposed to have an interest also in Ætna Life Insurance which is technically separate from Ætna Insurance and its subsidiaries. Morgan partners are on the American section of North British & Mercantile Insurance Co., Ltd., which has three American subsidiaries. One of the London partners is on Royal Exchange Assurance Corp., which also has three American subsidiaries. Morgan interests are indirectly represented on Home Life Insurance Co.; on Continental Insurance Co. of America, one of the America-Fore group of companies; on Great American Insurance Co.; and on Insurance Co. of North America.

John D. Rockefeller, Jr., and Bertram Cutler of the Rockefeller cabinet are both on the small Merchants Fire Assurance Co. Less directly the Rockefeller interests (and also the Morgan interests) are represented on Home Insurance Co., the largest single fire insurance company in the United States. Controlling interest in a few small insurance companies has been acquired by Equity Corporation, a new investment trust set up in 1932 by David M. Milton, son-in-law of John D. Rockefeller, Jr., and Ellery C. Huntington, Jr., a law partner of Herbert Satterlee who married J. P. Morgan's sister.

Through life insurance companies and savings banks, Wall Street gathers in and manipulates several billion of capital funds belonging to the middle class and to the topmost groups of wage-earners. The capitalist class, and especially the big insiders, gain both power and profit from having savings of the petty bourgeoisie and the better-paid workers placed at their disposal.

Most glaring is the industrial insurance racket carried on by the Metropolitan, Prudential and John Hancock. The worker buys with weekly premiums a very small life insurance policy which is, in practice, merely a burial insurance. The weekly payments seem small—when the worker has a job—but they are scaled by the companies with a wide margin to cover not only the expenses of competitive soliciting and personal col-

lection but also a deliberately over-weighted table of risks. If the worker is unable to keep up his premiums for four weeks in succession his policy lapses and can be revived only by paying all the overdue premiums. Until three years of premiums have been paid the "lapsed" policy is a total loss to the worker. He cannot get back from the company any of the money he has paid to its agent.[8] About $250,000,000 of actual cash was thus forfeited by the workers to the industrial insurance companies during the five years 1928 to 1932 inclusive, according to a conservative estimate.[9]

The number and value of lapsed industrial policies increased tremendously during the crisis until in 1932 and again in 1933 about one policy in five of those in effect on January 1 had been completely forfeited before the end of the year and another 7% had been cashed in. But even in the long run, including years of "prosperity" and relatively steady work, the workers get back less than half of the amount they pay to insurance companies.

> ...for every dollar paid to the insurance companies only 45 cents has been paid back as death claims, matured endowments, dividends, disability benefits, and cash surrender values. Ordinary policy-holders received, on the same basis, an average of 68 cents on the dollar.[10]

Group insurance is another racket through which insurance companies prey upon the workers.* This has become increasingly popular with corporations and by the end of 1933 about five million workers including office employees were "covered" by some 27,000 group policies. A group policy is arranged by the employer and covers the workers only so long as they are actually employed. Premiums are usually paid in part by the insured workers as a deduction from their wages. Some employers extract more than half the entire premium from the workers.[11] When the worker is dropped from his job, he is supposed to be entitled to a refund from the amounts he has paid in premiums. He is no longer covered by insurance and can take out an individual policy only at the premium rate set for his age. He carries over no advantage from his former group insurance except an exemption from medical examination *provided* he arranges immediately for a new policy, and few wage-workers can do this when they have just lost a job.**

During the hard-fought strike of National Biscuit workers in the winter and spring of 1935, the group insurance scheme was openly (but unsuccessfully) used as a club against the strikers. The National Biscuit Co. wrote to some 3,000 striking workers:

> The Metropolitan Life Insurance Co. has "suggested" that "you be notified that your privilege of converting your Group Life Insurance Certificate into

* Chief companies writing group insurance are Metropolitan, Ætna Life, Equitable, Travelers, and Prudential.

** On group insurance, see also R. W. Dunn, *The Americanization of Labor*, pp. 169-177.

an individual policy without a medical examination expires thirty-one days after leaving your employment. Your Group Insurance participation ceased when you terminated your employment on January 8." [12]

The leading insurance company officials have been paid large salaries during the crisis. And total assets and total income of the big companies writing either industrial or group insurance or both have been above the boom level of 1929. As mutual companies, they pay dividends not to stockholders but to policyholders and for several companies these also have remained above the 1929 total. But workers holding industrial policies are gently guided to apply their dividends toward increased insurance and seldom see a rebate on the weekly premium. Dividends on group policies are paid to the company and may or may not find their way back to individual workers who have contributed to the premiums.

Another apparatus for securing control of small investors' money was developed in the United States during the post-war boom. Investment trusts had flourished in Great Britain for many years, chiefly as a means of placing small investors' capital in colonial and foreign securities. The device is simplicity itself: A group including some big names—and usually tied in with one of the leading investment banking houses—would set itself up as a corporation for the purpose of buying and holding bonds and stocks. Salaried workers and small capitalists would buy the non-voting stock of the investment trust—control remaining with a small block of voting stock held by the promoters. Some three billion dollars of stock and bonds in investment trusts were sold to the petty capitalist world during the boom and added that much more to the controlled market for new securities.

Many of these investment trusts collapsed with the crisis. Some of the others that survived the crash have been able enormously to increase their holdings. Most striking has been the growth of the Atlas Corp., managed by men closely associated with the Morgan interests.

Atlas is "a company which in the three years of the depression has increased the net assets under its control from $14,200,000 to more than $100,000,000, even after eliminating inter-company items.... In all, Atlas, under the direction of Floyd B. Odlum, has acquired control of some twenty-five management investment trusts in three years.... Mr. Odlum is a trained 'acquirer.' It was he who did a great part of the work of assembling the properties of the American and Foreign Power Corp." [13]

## *Profits and Salaries*

Financial manipulations yielded before the crisis a rich harvest of profits. The picture is incomplete, but a few important facts are available.

Among the 513 persons reporting a yearly income of more than a million dollars in 1929, the gains from maneuvering of capital (as distinct from rents, interest, and dividends) made up over 60% of their total income. In the lower income groups this source of income was of progres-

sively lesser importance. Salaries and profits from investments (rents, interest, and dividends) provide increasingly the major share as the size of total income declines.

| *Income group (all sources)* | *No. of tax returns* | *Group income from capital manipulation* *Amount* | *Percentage of total group income* |
|---|---|---|---|
| $1,000,000 and over.. | 513 | $ 859,400,000 | 61 |
| $500,000 to $1,000,000 | 976 | 404,200,000 | 51 |
| $50,000 to $500,000.. | 37,400 | 1,693,300,000 | 34 |
| $5,000 to $50,000.... | 993,182 | 1,433,900,000 | 11 |
| Under $5,000 ........ | 3,012,256 | 293,800,000 | 3 |

(Derived from *Statistics of Income, 1929,* published by U. S. Bureau of Internal Revenue.)

Private investment banking houses have been chary of reporting their profits. For example, the mass of material presented to the Senate investigating committee in the spring and summer of 1933 carefully concealed the facts about total net profits drawn off by the various firms. But occasional large figures have slipped out about single transactions. For example, profits of more than five million dollars were gathered in by Kuhn, Loeb & Co. for organizing the Pennroad Corp.[14]

Again: "J. P. Morgan & Co. received 1,514,200 option warrants on United Corporation stock for which they paid $1 each. Within 60 days thereafter, J. P. Morgan & Co. was in a position to sell these warrants in the market at a minimum price of $40 for a total profit of over $68,000,000." [15]

We have record of high salaries paid by the boards of directors to the chief executives of big city banks and insurance companies. These salaries are of special importance as showing what the capitalist rulers think their chief employees are worth to them. The list below does not include the pre-crisis bank salaries, when the now discredited Charles E. Mitchell drew more than $1,000,000 as head of the National City Bank.

SOME BANKS AND INSURANCE COMPANIES PAYING $100,000 OR MORE TO CHIEF EXECUTIVE DURING 1933 OR 1932

Chase National Bank, New York.
W. W. Aldrich received in 1933 salary of $151,744 and bonus of $1,760. At the end of the year he was being paid at the rate of $175,000 a year.

Union Trust Co., Pittsburgh.
H. C. McEldowney received $165,000 in 1933. At end of year salary had been cut to *only* $120,000. This is a bank which pays dividends of 200% yearly on par value of its capital stock.

Chemical Bank & Trust Co., New York.
Percy H. Johnston received salary of $125,000 in 1933.

National City Bank.
Gordon S. Rentschler received salary of $125,000 plus bonus of $5,550 during 1933.

Manufacturers Trust Co.
Harvey D. Gibson received salary of $125,000 in 1933.
Corn Exchange Bank Trust Co.
Walter E. Frew received salary of $100,000 plus bonus of $2,882 in 1933.
Guaranty Trust Co.
Charles H. Sabin received salary of $95,333 plus bonus of $5,586 in 1932.
William C. Potter received salary of $95,333 plus bonus of $5,735 in 1933.
Central Hanover Bank & Trust Co.
George W. Davison received salary of $100,000 in 1933.
Metropolitan Life Insurance Co.
Frederick H. Ecker received salary of $200,000 in 1932, increased in 1930 from $175,000.
Prudential Insurance Co. of America.
Edward D. Duffield received salary of $125,000 in 1932.
New York Life Insurance Co.
Thomas A. Buckner received salary of $125,399.92 in 1932.
Mutual Life Insurance Co.
David F. Houston received salary of $125,000 in 1932, increased in 1930 from $100,000.
Equitable Life Assurance Society.
Thomas I. Parkinson received salary of $100,000, increased in 1931 from $75,000.

Besides the profits and high salaries accruing to bankers from their manipulation of capital in dealings with other capitalists, we should note the special field of banking formerly reserved for pawnbrokers and loan sharks which the past generation of bankers found it worth their while to enter. In their philanthropic eagerness to "help" the workers, highly respected capitalists have set up various kinds of agencies for making small personal loans on a business basis, charging from 2% to 3½% *a month* for their "services" and drawing in a tidy profit on their capital. The Morris Plan banks (for loans against wages and "character") are headed up in the Industrial Finance Corp., indirectly under Morgan influence through its general counsel, Satterlee & Canfield, a law firm in which the leading partner is brother-in-law of J. P. Morgan.

### *Effect of the Crisis*

Centralization in banking and finance has been increased during the crisis.

Investment banking and brokerage houses have been hard hit by the tremendous drop in new corporate issues. Government bonds and treasury notes have been the only current security offerings of any size but these are unloaded directly on commercial banks and Federal Reserve banks without the former dependence on underwriting by a private investment house. Investment affiliates of commercial banks have been liquidated and the banks themselves are now restricted to buying and selling of corporation bonds on their customers' orders. If the capitalists manage

to pull industry back to a new period of expansion the group of strong survivors ready to command the field of investment banking will be much smaller than it was before the crisis.

In commercial banking, the largest units hold a much higher percentage of the total deposits than they have ever held before. None of the major banks in New York, Boston, Philadelphia, San Francisco, Los Angeles has collapsed. In Detroit and Cleveland banks tied in with Morgan-dominated corporations had to go out of business, but in Detroit new banks with new officials but the same connections were set up to take their places.* When the Dawes bank (Central Republic Bank & Trust Co.) which was fourth largest in Chicago could not be saved, even with a $90,000,000 loan from the Reconstruction Finance Corp., a new Dawes bank (City National Bank & Trust Co.) rose miraculously out of the ruins of the Central Republic.

Several of the largest banks in the country were persistently rumored as shaky, but except in Detroit none of those closest to Morgan or Rockefeller interests has been allowed to fail. Government credit has been poured out to salvage the banking system and in addition private resources have been mobilized to help the big banks strategically located in a dominant position.

Banking aid from the Reconstruction Finance Corp. has been extended in two ways. Straight loans to commercial banks have totaled over $1,900,000,000 since the R. F. C. was set up in February, 1932. Something over two-thirds of this total has been repaid, but about $500,000,000 of loans to banks were outstanding on June 30, 1935. Much of this went to banks which were afterwards closed and liquidated. Part of it went to banks after they were closed, as an advance for settlement with depositors, the R. F. C. taking over as collateral "frozen assets" which may or may not thaw out into liquid value as time goes on.

Then during the banking holiday of March, 1933, the R. F. C. was authorized to purchase preferred stock or capital notes issued by banks. This form of government aid had several practical advantages over an out and out loan. It looks better on a bank's published balance sheet. It gives the R. F. C. a regular voice in the management of the bank's affairs. Also, it made possible a bally-hoo campaign urging all banks to sell stock to the R. F. C., with reports of progress suggesting that a tremendous advance had been accomplished by the widespread response. The R. F. C. had advanced about one billion of capital to more than 6,000 banks before June 30, 1935. The outstanding big banks which desperately

* "... General Motors joined with the Reconstruction Finance Corp. in supplying $25,000,000 as capital for the formation of the new National Bank of Detroit. To-day, the capital supplied by General Motors has appreciated in market value approximately 140%. In the meantime, the National Bank of Detroit has become one of the nation's largest banking institutions, has been profitable almost from its inception and is on a dividend basis...." From a story published under the heading "Samaritan Rôle in Detroit Bank Crisis Returns Big Profit to General Motors" in *Wall Street Journal,* August 23, 1935.

needed assistance were thus covered by a general movement and their shakiness was not publicly revealed.

Much has been made of this wide government participation in banking as if it marked a turn away from control by the financial overlords. Actually, however, it was a form of subsidy to weakened units of monopoly capitalism. And in the one important case where the R. F. C. openly interfered in the management of a bank it continued and perhaps strengthened the Morgan influence.*

While extending aid to privately owned commercial banks, the federal government has itself begun to function in certain fields of finance. An intricate system of agencies is supplying short-term credit, long-term credit, and intermediate credit to farm owners and farmers' coöperatives. Government was brought in as a banker and lender in agriculture to salvage banks and other financial companies which had lost heavily from the depth and seriousness of the agricultural crisis. But wherever the hope of future profit has faded we shall see these government financial agencies permanently displacing private concerns.

So also in relation to the railroads. The crisis has shown up the general over-expansion of railroad capital. Where possible, the railroad bond issues are being salvaged for private owners with the help of the federal treasury. Over $414,000,000 of R. F. C. loans to railroads were outstanding on June 30, 1935. (On the rôle of government funds in the railroad crisis, see Chapter XVI.)

In relation to all other industry, government banking activities are strictly limited. No one industrial borrower may receive more than $500,000 from the R. F. C.—which excludes the large corporations and leaves them to be "served" by privately owned banks without government competition. And the total of such industrial loans outstanding at any one time is limited to $300,000,000. The Federal Reserve banks may also lend directly to industry, but only "in exceptional circumstances" and up to a variable but clearly defined total. Their announced intention is to apply the same standards of security that are set by commercial banks but to meet the need for longer term loans, running up to three and even five years, which are supposed to be outside the field of private commercial banking.

Assistance for foreign trade in which settlement is expected to be slow and long-term credits are necessary is also the stated purpose of the government's Import-Export banks.

* The R. F. C. insisted that Walter J. Cummings should be installed as chairman of the Continental Illinois Bank & Trust Co., the largest bank in Chicago. And Cummings has been an official in Morgan companies: Chairman of the executive committee of the American Car and Foundry Co., and president and chairman of Electric Railway Equipment Securities Corp., jointly owned by J. G. Brill Co. (subsidiary of American Car & Foundry) and by General Electric and Westinghouse Electric. Cummings was also president of the Gary Railways Co., in the town completely controlled by U. S. Steel Corp.

*No competition with privately owned banking is offered by government agencies in fields that will still yield a profit to the bankers.*

In spite of the large numbers of banks, investment bankers and insurance companies which operate in the United States without any formal, technical corporate links among themselves, the control of banking is concentrated in a few large institutions and these are tied together in an informal "community of interest." This high degree of centralization has been strengthened and not weakened by the crisis.

CHAPTER VII

# HOW FINANCE CAPITAL RULES INDUSTRY

CONTROL of capitalist industry rests upon the control of capital. As a business grows and requires more capital beyond that which is owned by a small group it must gather in outside capital. This is the basic and universal fact in the development of capitalism from which has resulted increase of large corporations and large banks, the fusion of banking and industry, and the concentration of control.

But these developments do not follow the same pace in different countries or in different industries within any one country. Material conditions which lead to variations in the rate of development lead also to differences in the form through which the financial rulers operate. Lenin, in *Imperialism, the Highest State of Capitalism,* summarized important facts about the structural connections in pre-war Germany and France between the "great banks" and the industrial corporations. In the United States, the fusion of banking and industrial interests which is the essence of finance capital has been developing ever since the nineties. But apart from interlocking directorates few structural connections have been set up between the industrial corporations and the banks. Both these sectors of monopoly capitalism are, however, dominated by the financial rulers.

## *Widespread Ownership of Capital*

Here the wide expanse of unsettled territory and the resultant opportunities for *extensive* development of capitalism have affected the form of financial control. Peculiar to the United States has been a relatively large capitalist class which until the crisis of 1929 enjoyed a high degree of prosperity. Even while small enterprises were being absorbed or ruined by the growth of large corporations, some opportunity persisted for new ventures. And more important than the persistence of small enterprises alongside of the dominant trusts were the expanding groups of well-paid salaried executives and of hangers-on who had inherited small property or whose professional or salaried work gave them a moderate living and tied them to the capitalist class. Among the American workers, also, a relatively large top layer fared well enough under "prosperity" to acquire some small savings and a petty-capitalist viewpoint.

From this there developed two parallel trends within the capitalist structure which helped to shape the form under which control by finance capital functions in the United States.

First, the ownership of corporation stock has been extraordinarily scattered. Not, by any means, to the degree claimed by the bally-hoo boys of prosperity years who added up all the stockholders reported by all the large corporations. But sober estimates of an actual total range from 3,000,000 to possibly 5,000,000 stockholders after all duplicates are omitted. For example, many of the 235,000 stockholders in Pennsylvania Railroad and the 345,000 in General Motors and the 540,000 in Cities Service Corp. are also among the 670,000 in American Telephone & Telegraph and the 190,000 in U. S. Steel and the 134,000 in Standard Oil of New Jersey.

Liberals and some socialists during the post-war boom were hailing this widely scattered ownership of leading corporations as the "new democracy" of industry. But obviously its real effect was exactly the reverse. Even 10,000 stockholders—and still more emphatically 100,000 stockholders—are powerless to organize for control of "their" corporation. They merely place a great bulk of capital at the disposal of the financial rulers.

Second, and at the same time, numerous petty capitalists have tried to build up security. Owners of "loan capital" seeking investment without participation in management constitute the so-called "rentier class" which appears in every developed capitalist country and is really a section of the capitalist class. In the United States it is peculiarly numerous and has included even a few of the most highly paid workers. Peculiar to this country also is the extent to which the investment of loan capital has been confided to great life insurance companies controlled in Wall Street.

## *Ownership* versus *Control*

The economic power of the financial rulers is supported by the structural mechanisms through which they control other men's capital. This mechanism functions in two distinct fields: banking and industry. But it is so constructed that banking operations set up lines of control over industry while, at the same time, the large industrial corporations set up lines of control over banking. The leading financial groups function in both fields and represent through their activities the fusion of interest which constitutes finance capital.

But while this fusion of banking and industrial capital is a basic fact in the period of monopoly capitalism and imperialism, it has not developed evenly and uniformly. Details of control over banks and industrial corporations vary, and even among large concerns, all clearly dominated by finance capital, we find three stages of development. A few important companies—and many smaller ones—are still controlled by a family or a small group of associates who own the majority of the stock. In the

second stage, control is held through a considerable minority stock ownership. In the third stage, control has been separated from stock ownership.

The three leading financial groups all represent a fusion of banking and industrial capital, but they also illustrate these three stages of control.

Industrial companies which are distinctively and completely "Mellon" companies are mostly of the first type. Mellon wealth and power were founded originally in real estate and banking and continue to function in this field. But much of their industrial interest is centered in companies in which they have bought majority stock control and whose expansion has not yet outgrown the large resources of the Mellon family. Their banks are dominant in the banking of the Pittsburgh area and exercise a strong indirect influence in other companies. And Mellon banking strength helps to keep their closely held industrial companies clear of interference from any other financial group.

Rockefeller control of Standard Oil companies and coal companies is of the second type: minority stock control. At the same time Rockefeller interests are strong in banking through their stock control of Chase National, the largest single commercial bank in the United States. They exercise indirect banking power over industry through Chase National (and formerly through National City Bank) and indirect industrial power over other banks through the connections of the Standard Oil companies.

Morgan industrial control is chiefly of the third type. The Morgan power represents the most advanced stage of capitalist development and concentration. It is largely separated from stock ownership. Industrial companies drawn in originally through Morgan investment banking are held in line through Morgan dominance in the banking world, but at the same time the Morgan banking power is now supported by the great Morgan industrial corporations.

This third type of control without ownership developed from bankers' penetration of industry. To-day, while the biggest industrial corporations are powerful units of finance capital, quite independent of mere banking control in the limited sense, the influence of bankers and a type of control exercised through the functions of banking is still an important factor in many industrial corporations. The details of this mechanism have much more than a historic interest.

Take, for example, the difference between bonds and stock which seems unimportant in relation to the basic conflict between the capitalists and the workers whom they exploit, but which has played an important role in the building up of finance capital in the United States. Stockholders are technically the owners of a corporation. Bondholders are not owners but creditors. Stockholders elect the directors while bondholders have no vote in company affairs. But practically in most of the large corporations and many smaller ones, stockholders' votes have become mere rubber stamps on the nominees and the policies of the management. Directors and officers may be among the chief lieutenants and rulers in the world of finance capital. If not, they have merely been shifted from control by the stockholders to control by the bankers who keep the corporation sup-

plied with loan capital by selling its bond issues or supplying it with short-term credit.

Companies under stockholder control are always subject to possible interference by a commercial bank. For when a bank advances business credits it may demand full information about the company's other obligations, its profits, payroll, position in the competitive market, etc. So long as a loan is outstanding, the bank has a whip-hand over the corporation. It may order wage cuts or technical reorganization. The bankers may even agree to boycott a company and drive it to the wall. On this point, Upton Sinclair's book on the experiences of William Fox is full of interesting information.

Interference of bankers in the details of textile operation was revealed in the textile paper, *Fibre & Fabric:*[1]

> Bankers may know the banking business.... But it is beyond question that they will fall flat as operators of the mills. Among recent developments are banking orders to reduce stocks, cut wages, and institute operating reductions that are decidedly industry killing, yet *they are in the saddle and there is no money forthcoming unless orders are obeyed.* (My emphasis.—*A. R.*)

That a bank's representative may try actually to intimidate the stockholders at a non-banking company meeting was also indicated by a little item in the *New York Times*.[2] At the annual meeting of the Chase National Bank,

> A stockholder who introduced himself as Julian Pierce of Washington, editor of *The American Federation of Labor Weekly,* presented a resolution providing that representatives of the bank attending stockholders' meetings of companies in which the Chase National Bank is interested be prohibited from using intimidating language or making threats of prosecution or otherwise interfering with the free expression by stockholders or bond owners of the companies regarding either the acts of officials or directors of the companies themselves or of the Chase. The resolution was not seconded and Mr. Pierce was ruled out of order.
>
> Mr. Pierce explained that at stockholders' meetings of the Washington Gas Light Company he had been threatened with prosecution for criminal libel by Alden L. Doan, who, he said, represented the Chase at the meeting of the Washington company.

Much depends of course on the relative positions and relative strength of the banking concern and the industrial company. Morgan and Rockefeller have a widespread power over banks outside of the financial centers through the local bank needs of their great non-banking corporations.

Since commercial banks and investment banking have been in the main dominated by identical financial groups, control of short-term credit and control of the long-term capital market have been merely two phases of one identical process. The company which desires to expand beyond the resources of a small group of owners must turn to an investment

banker for assistance. Perhaps more often, Wall Street has taken the initiative in promoting "trusts" and mergers, and even compelling independent companies to knuckle under. Much of the development of Morgan power came through such aggressive activities.

If resistance was offered to a banker's plans, all sorts of legal quibbles might be resorted to, and if these went into the courts a judge could usually be found to obey the voice of Wall Street. The stock market might be manipulated to throw fear into the hearts of a resisting group, or an investigation might be started to uncover some of the dirt which was always present. A financial boycott, or a whispering campaign, or pressure from the commercial banks to which a company was in debt were other useful weapons. For such tactics as Rockefeller used in building up his oil monopoly were by no means overlooked or scorned by the financiers who later drove for control of industry.

A few battles royal were fought for possession of stock. So Morgan and Harriman in 1901 fought through their lieutenants on the floor of the Stock Exchange for control of Northern Pacific. But the size of such a transaction, involving in the Northern Pacific case $78,000,000 par value of stock, and the disturbing effect of such a battle on the general stock market, have led the financial rulers to use this method sparingly. More commonly a shift in control would be quietly arranged through an interplay of threats and fears and promises of higher profit, or through the pressing of creditors' claims after a company had been driven into receivership or bankruptcy.

When a merger has been arranged, or a large bond issue floated, the investment banker slides into power behind the scenes. Even when everything is prospering he has an inside advantage over the stockholders unless there is one powerful group which retains stock control. The investment firm or some commercial bank in which it is interested usually becomes bond trustee, a permanent intermediary between the bond owners and the corporation. This may be only a routine position. But the bond trustee has a right to full information about the company's affairs, and he is expected to interfere if he considers that the bondholders' security requires a change in policy. If the corporation defaults on bond interest, the investment banker takes the lead in organizing a "protective committee" to represent aggressively the interests of the bondholders. Throughout receivership and bankruptcy proceedings, the claims of the bondholders, as creditors, take precedence over the claims of the stockholders, as owners.

## *Receiverships and Control*

Many shifts in corporation control have been accomplished by the freezing out of the stockholders' interests and a reorganization in which the bankers took control as agents of the bondholders. Morgan, as we have seen, laid the foundations of his railroad empire when the bank-

ruptcies of the 1893 crisis gave this kind of opportunity to step in with authority. This method became an old, old story during the next forty years.

But here again, the relative strength of the various groups involved is an important matter. Receivership or bankruptcy proceedings may not lead to a change in control if the already dominant interests are strong financially. This important point is worth illustrating with a few recent examples.

When the two Rockefeller coal companies went into receivership—Consolidation Coal in 1932 and Colorado Fuel & Iron in 1933—the chairman of one and the president of the other were appointed by the courts as receivers for their respective companies. Several "protective" committees for the bondholders were set up, at least two of them including Rockefeller men. Rockefeller influence, although based chiefly on stock ownership, stepped in to control the reorganization and appears to be continuing without disturbance.

In 1925, in the largest railroad bankruptcy in the history of the United States, Kuhn, Loeb & Co., which had been the dominant financial power in the bankrupt Chicago, Milwaukee & St. Paul Railroad, manipulated the various "protective" committees and drafted the plan of reorganization which was finally adopted. Although Kuhn, Loeb & Co. had had a large part in the policies which wrecked the company, they retained financial control of its successor.

Insull had developed a sharp conflict with the Morgan interests. Morgan-Edison-General Electric had given him his start and had recognized Chicago and Illinois utilities as his field for exploitation. But Insull made two serious mistakes which brought the wrath of Wall Street down upon his head. He allowed himself to be "caught with the goods" in graft revelations of 1926, and he attempted to expand his system in areas outside of his province. Insull's own interests were tied up completely with his utilities and with speculative real estate projects in and around Chicago. When his greatly inflated pyramid was pricked by the crisis, it was promptly squeezed flat by the leading banks in New York and Chicago. Insull's power was destroyed.

How the banks manipulated the Insull receivership for their own immediate advantage at the expense of smaller creditors is an interesting story.[8] But from the viewpoint of control the most important fact is the neat and immediate increase in Morgan influence within three big Insull units—Commonwealth Edison, People's Gas Light & Coke and Public Service Co. of Northern Illinois—which are still operating at a profit.*

* Geo. A. Ranney, a long-time official of International Harvester Co. (Morgan-dominated), has become director and vice-chairman of two, and member of executive committee of People's Gas Light & Coke Co. Sewell L. Avery, chief executive of Montgomery Ward & Co. (Morgan-controlled) and director of U. S. Steel, has been added to executive committee of Commonwealth Edison. Bernard E. Sunny, of executive committee of General Electric and of two American Telephone &

The cracking of the Van Sweringen pyramid probably ends the usefulness of these two brothers in the Morgan scheme. It is not likely, however, that the railroads which they controlled will be allowed to slip from the Morgan domain. The story of the bankruptcy thus far is of special interest in relation to the technique of control.

The Morgan firm, as head of a banking syndicate, had outstanding a loan of $48,000,000 to Alleghany Corp., top company in the Van Sweringen pyramid. When the loan was defaulted, the controlling stock in Alleghany Corp., deposited with Morgan as collateral, passed into the possession of the banking syndicate. But the bankers did not choose to hold it for control, so they auctioned the shares at a fraction of their former value and received about 10% on the defaulted debt. The shares were bought in by a new holding company, Midamerica Corp., conveniently set up with the help of middle western capitalists as "agent" for the bankrupt Van Sweringen brothers who could not legally act for themselves in such a transaction. The press hailed the return to Van Sweringen "control" of the railroad companies which they had assembled. But what are the facts?

While the new Midamerica Corp. regained stock control of Alleghany Corp., the stock held by Alleghany in other companies is now voted by Guaranty Trust Co., a Morgan bank! For this stock in Alleghany subsidiaries had been deposited as collateral for certain Alleghany Corp. debentures (that is, bond issues) and the bank as trustee was given power to vote the stock "until such time as the market value of these securities shall exceed 150% of the principal amount of Alleghany debentures."[4]

Also, the Morgan firm continues its banking relationship with several of the Alleghany operating subsidiaries, notably the Chesapeake & Ohio and the Erie R. R. In the bankrupt Missouri Pacific, the key position seems to be held by the committee which represents banks and insurance companies holding "first and refunding mortgage 5% bonds." The chairman, John W. Stedman, is a vice-president of Prudential Insurance Co. and committee members include S. Parker Gilbert, a Morgan partner. The bankrupt Chicago & Eastern Illinois, of which control had been acquired from the Ryan estate by the Van Sweringen companies, is also being guided through a reorganization plan drafted by a group of savings banks and large insurance companies.

Sometimes a corporation is thrown into receivership by the controlling interests as a means of accomplishing a reorganization or breaking an unprofitable contract. A conspicuous current example is the receivership of the Interborough Rapid Transit Corp. in New York City, a company in which Morgan has strong banking influence along with a voice in the

Telegraph subsidiaries, is on executive committee of Public Service Co. of No. Illinois. James Simpson, new chairman of all three companies, was (like Sunny) a director under Insull, but the reorganized boards are recognized as a new management and Morgan influence is now believed to be dominant. No other strong financial interest is now represented on these companies.

voting trust through his lawyer, Frank L. Polk. Sharp conflict of interest had developed with the leased Manhattan Railway, a Rockefeller controlled property, and a receivership was sought in order to get rid of the lease of the Manhattan elevated lines. James L. Quackenbush, general counsel for the Interborough, told a senatorial investigating committee that the receivership had been "arranged" and that he, as general counsel for the Interborough, was the one who arranged it. According to the *New York Times:*[5]

> Mr. Quackenbush said he picked the American Brake Shoe Company of Delaware (a Morgan-controlled company—*A. R.*) as a creditor whose unpaid bill for $27,000 was to be refused formally in order to throw the $500,000,000 transit system of the Interborough into a Federal equity receivership. He said he arranged for proper counsel to represent the brake shoe company and coöperated with that counsel in preparing the receivership application. . . .
>
> The application was presented to Judge Manton as senior judge of the Federal Circuit Court, over the heads of the Federal district judges, Mr. Quackenbush said, "because I did not believe the procedure adopted by the district judges was suited for the administration of the Interborough."

## *The Broad Base of Control*

Early in the period of monopoly capitalism the power of finance capital began to include a grip over industry which went beyond the control of certain specified corporations. Morgan's industrial domain has developed from groups of closely related activities. From railroads Morgan went back to steel and from steel back to iron ore and coal; then out again to some of the chief markets for steel: locomotives, railway cars, farm machinery, shipbuilding and, later, automobiles. Another group radiated from the monopoly in certain fields of electrical manufacture and included telephone, electric light and power, and copper. Such groups represent in part a complex corporate development with vertical trusts engaged in the production of raw materials and successive stages toward a finished product. U. S. Steel Corp., for example, combines iron ore, coal mines, limestone, cement and mills for turning out steel ingots, rails, structural shapes and oil well equipment. In part, the integration of products and markets has been entirely informal, with separate companies linked only through their common financial rulers.

Each conquered area of monopoly and special privilege could serve as a base for bringing pressure on other companies and other industries. Every corporation brought under control might be used as a weapon to destroy its competitors. But mergers and acquisitions were often more profitable than the mere destruction of a rival. They played directly and doubly into a banker's hands. Mergers in boom times give an opportunity to draw in additional capital from the "public"—a process which yields large immediate profits to the bankers. And as the size of the top corpora-

tion increases it becomes increasingly simple for the financier and the management that represents him to maintain their power.

One important invisible element in financial control is the vast network of informers who have kept the Morgan and Rockefeller headquarters in touch with matters throughout the country and throughout the world. This does not mean simply the crudely brutal espionage which they use against the workers. It includes the reports on all phases of business which are supplied by the employees of their world-wide connections. Standard Oil companies operate in every state and almost in every county in the United States. They have selling agencies in every capitalist country where they do not produce. Morgan interests are more diversified and their offices are quite as widely scattered. Morgan, for example, is very close to the International Nickel Co. of Canada, Ltd., and its United States affiliate which the *Wall Street Journal*[6] described as "one of the world economic and political corporative news gatherers in business next to the Standard Oil Co. of New Jersey." Morgan banks and Rockefeller's Chase National Bank have a network of banking correspondents both here and abroad. William Fox, the grasping upstart whose millions aroused the envy of Wall Street and whose independence invited destruction, was convinced that even the tapping of private telephone wires was used by his financial enemies when the final duel with them began.* Whether for aggressive tactics against a rival slated for destruction or for defense against maneuvers that threaten control, this wealth of inside information is a powerful weapon possessed only by those who already hold vast power.

## *Directors and Officials*

The controlling financial group usually acquires representation on the board of directors. Sometimes they put on one or more men of their own inner circle. Sometimes they are represented by a faithful lieutenant whose chief function will be to report back to his masters and follow their instructions. But whichever way they work it, such directors will usually be recognized as casting the decisive vote. Senator Couzens, himself a wealthy man enjoying the fruits of a close relationship with Henry Ford in the early stages of Ford prosperity, stated at the Senate hearings (May, 1933) when the Morgan partner Whitney was on the stand:

> *Couzens:* I have sat on boards of directors where 2 and 3 per cent of the stock dominated and controlled the policies of the companies, not because they had a physical majority of the ownership.
>
> *Whitney:* No.
>
> *Couzens:* But because of their influence, and not necessarily their internal influence, but they have influence in the back and strings to pull which make it necessary, if you please, for the majority to do the wishes of the minority.[7]

* This is indicated several times in *Upton Sinclair Presents William Fox.*

Much depends of course upon the "loyalty" of salaried officials. This can be constantly checked by alert directors. "Loyalty" is also carefully cultivated by sharing with them special favors such as a big banking house has the power to dispense. The long Morgan "preferred lists" published at the Senate hearings in May, 1933, were immensely important in this respect. It was no accident that they included chairmen and presidents of Morgan-dominated corporations, outside capitalists who make useful directors, and officials of companies in which Morgan has only a secondary influence. Much of the profit and power of imperialist capitalism is based on favors and special privilege secured from the government or held by sheer force of monopoly and finance. To maintain intact such a vast web of influence as that which has been spun from the Morgan offices, the "control" by Morgan must also allow a large measure of executive freedom to the officials of Morgan companies. They also must have a generous slice of special privilege.

Lincoln Steffens, one of the most penetrating American journalists, gives in his *Autobiography* an illustration of how this worked under the first J. P. Morgan. A junior partner told Steffens that Morgan had discovered he could not make the New York, New Haven and Hartford Railroad buy its coal from a certain coal company unless "Diamond Jim" Brady agreed.

> He was so enraged that he was going to fight Brady; "if he did nothing else the rest of his life, he would lick that man." But he didn't; he accepted him, and the reason was that Brady represented a company in which the officers of the New Haven and other railroads held shares; the company had the exclusive privilege of selling supplies to those railroads. It was a racket, of course, but the ramifications of its business, influence, and power were so complex that even Morgan dared not touch it.... A political boss concentrates in himself and personifies a very "wise" adjustment of the grafts upon which his throne is established. He must know these, reckon their power, and bring them all to the support of his power, which is, therefore, representative and limited. A business boss has to yield to the powerful men who support him. The Southern Pacific Railroad had to "let the city grafters get theirs." The big bankers had to let the life insurance officers and employees get theirs.[8]

But Steffens did not conclude that the officials were therefore free and independent and Morgan's power unreal or unimportant. When Steffens went back to Wall Street, he says,

> I found men of my age, whom I had known as stock-brokers and subordinates swelling around as presidents of banks and trust and other companies. Fine. They were proud, and I was congratulatory; but as I saw them often, I discovered that they still were subordinates.... *the unidentified seat of actual power*:..*was the absolute control of credit: political power and business power and money were only phases of this business man's political control of the function of money-lending, of credit-lending*.... In all my time J. P. Morgan sat on the American throne as the boss of bosses, as the ultimate American sovereign.[9] (My emphasis.—*A. R.*)

A financial group may exercise control directly over the officials of a company with a board of directors made up entirely of "dummies" or yes-men who themselves follow the president. But a directorship is useful. The present J. P. Morgan defined a director's duties, at the Senate hearings in May, 1933:

> My idea of the duties of a director is to watch the company, to pay strict attention to the general policies of the company, but the most important duty of the director is to get an executive power, a president and the executive officers of the company, and then see that they go on and do their duties. . . .
>
> I have worked with a lot of corporations, and I have always found that we have always worked together rather comfortably, and that we always came to accord very easily. I do not recall a case when there were any serious differences.[10]

Morgan partners and their most trusted lieutenants have the reputation of taking their directorships seriously. The John D. Rockefeller cabinet are also expected to participate actively in the affairs of a corporation on which they represent the Rockefeller interest. The same thing is probably true of Standard Oil officials and of the executives in closely-held Mellon corporations. These groups do not lightly lend their names. They are never "dummies," and therefore their directorships give a fair minimum estimate of the corporations under their influence or control.

Many other financiers have followed a more casual policy. Notoriously, Percy A. Rockefeller and his friends, along with partners in Lee, Higginson & Co. and a former official of the Chase National Bank, lent their names to the Swedish super-swindler, Kreuger, as directors of his International Match Corp. while they allowed him to manage it without bothering really to inform themselves on its affairs. Since the Insull collapse, the directors of Insull companies have defended themselves by explaining that they really knew very little about the details of Insull financing. Both these groups were failing to exercise "control" although they were in a position which gave them control if they chose to take it.

Also it was not uncommon during the boom for certain big capitalists to accept directorships without desire to control but merely for the sake of the inside information which would help them to play the stock market more profitably for themselves. Irate liberals have made so much of this "disloyalty" to stockholders that they tend to belittle the importance of directorships as indicating "influence" or "control." This is too sweeping. Directorships still play a vital role in the industrial kingdoms of the topmost rulers.

## *Differences Among the Large Corporations*

Against the background of these broad general principles, let us look now at the variations which exist among the large non-banking corporations. Berle and Means in *The Modern Corporation and Private*

*Property* analyze the largest 200 corporations according to the methods by which they are controlled. The Berle and Means analysis stops short of relating the corporation to the financial group which is back of the "management" or which employs a "legal device," but nevertheless it is of basic importance.

*Method of control in largest 200 non-banking corporations, as of January 1, 1930*

| | Percentage distribution | |
|---|---|---|
| | *By number* | *By assets* |
| Management control | 44% | 58% |
| Legal device | 21% | 22% |
| Minority control | 23% | 14% |
| Majority ownership | 5% | 2% |
| Private ownership * | 6% | 4% |
| In hands of receiver | 1% | negligible |
| | 100% | 100% |

* Only 20% or less in outside hands.

SOURCE: Berle and Means, *The Modern Corporation and Private Property*, p. 115.

Not a single one of the billion-dollar corporations was included in the groups classed as "majority ownership" or "private ownership." The most important of the 12 "privately owned" companies (in which less than 20% was in outside hands) were the Ford Motor Co., the Great Atlantic & Pacific Tea Co., Jones & Laughlin Steel Corp., National Steel Corp. and three Mellon companies: Gulf Oil, Aluminum, and Koppers. The 10 companies controlled by groups owning a majority but less than 80% of the stock include another Mellon company: Eastern Gas & Fuel Associates.

But the Berle and Means analysis does not point out that even several of these 22 corporations have come partly under the influence of an outside financial group. For example, National City Bank and J. P. Morgan & Co. are closely associated with the Phelps Dodge Corp. The Mellon family has drawn into two of its principal banks a leading official of Jones & Laughlin. George W. Crawford who controlled Lone Star Gas Corp. was (until his death in 1935) also director of more than one Mellon bank, and Union Trust Co. helped to float Lone Star Gas Securities. (Crawford had also since 1930 been made chairman of the Morgan-Standard Oil Columbia Gas & Electric Corp.) The Mellon interests have a close alliance with the Duke interests which control Duke Power Co.

In the "minority control" group, the 46 large corporations include other Mellon companies and the principal Rockefeller oil companies. Here we find also two of the smaller Morgan railroads: Delaware, Lackawanna & Western, in which the close Morgan allies Baker and Vanderbilt owned approximately 18% of the stock, and the Western Pacific in which Arthur Curtiss James owned nearly 40%, according to Berle and Means.

E. I. duPont de Nemours and U. S. Rubber are controlled by the minority holdings of the duPont family, but in duPont de Nemours and at least four other companies classed by Berle and Means as probably "minority controlled" there is also some definite connection with the Morgan interests.*

"Minority" control rests on stock ownership. Technically it is less solid than "majority" control, but practically the largest considerable minority holding can swing the vote if all the rest of the stock is widely scattered or if smaller minority blocks are in friendly hands. Rockefeller control was put to the test in Standard Oil Co. of Indiana in 1929 and succeeded in routing a management that opposed the Rockefeller policies.

These corporations, controlled by stock ownership, include about one-third of the largest 200. They represent, in the main, a survival of control by the industrialists with a minimum of interference by those who have been primarily bankers. Mellon banking gave the family its opening for industrial control, but members of the family have for more than a generation taken an active and aggressive part as industrial executives. Rockefeller, of course, built his fortune and power primarily and directly as an industrialist. The Rockefeller banking activities were a much later development and are still distinct from the actual management of Standard Oil Companies. The "Morgan" companies which fall in these stock-ownership control groups do not usually represent stock ownership by Morgan himself or the Morgan firm. On the contrary, they reflect an alliance between Morgan interests and (1) industrialists or (2) capitalists like A. C. James and the Vanderbilt heirs whose financial interests have continued to be more highly specialized than the Morgan interests.

Most of the Morgan companies fall in the much larger group in which control is almost completely separated from stock ownership. This other group—classified by Berle and Means as made up of "management" control and "legal device" control—includes two-thirds of the largest 200 corporations. It represents the most advanced development of finance capitalism within the United States. It includes all the billion-dollar corporations except the two leading Standard Oil units.**

Stock votes might still be important in these companies if the policies of the management roused special wrath and widely scattered stockholders succeeded in organizing against it. But in this unlikely case, the financial overlords could mobilize the votes of considerable stock through the float-

* On January 1, 1930, the date referred to in the Berle and Means analysis, the Standard Oil Co. of New Jersey was the only billion-dollar oil company. In 1931 the Standard Oil Co. of New York and Vacuum Oil Co. were brought together as subsidiaries of the new Socony-Vacuum Corp. and this new unit stepped immediately into the billion dollar class. Its name was later changed to Socony-Vacuum Oil Co., Inc.

** Morgan as banker with a director from the Morgan inner circle: Continental Oil Co.; Glen Alden Coal Co. Morgan or First National Bank of New York as banker without director: E. I. duPont de Nemours; International Mercantile Marine Co.; Procter & Gamble Co.

ing supply held in brokers' offices for speculative trading and through the blocks of stock held in trust funds by banks and institutions which they dominate. In U. S. Steel Corp., for example, Morgan could undoubtedly swing the brokers' stock which amounted to 20% of the total common shares in October, 1935,[11] and had been one-fourth or even more during the boom.

Essentially there is no difference between "management" control and "legal device" control. Both are forms of control by an inner ring which has itself a minimum of stock, possibly even no stock at all. But in the "legal device" group the inner ring has fortified its financial control by some manipulation of voting control. Three devices are used, sometimes separately, sometimes in combination.

The oldest device is the voting trust. The first J. P. Morgan used this to fortify his position in various banks and corporations, and especially in the railroads when Harriman-Rockefeller interests were also aggressively driving for a railroad empire. The voting trustees were a small committee—commonly, in those days, Morgan himself and a partner and another ally—with whom the stockholders would be asked to deposit their shares. Voting trust certificates, instead of stock certificates, would be traded on the exchange, and until the end of the stated period (usually five years or ten) for which the voting trust was set up the right to vote the stockholders' shares could not be withdrawn from the voting trustees. Most of Morgan's voting trusts have long since expired. Once the right management was installed and the banking control by J. P. Morgan & Co. was recognized, and the companies had grown in total assets and numbers of stockholders, such explicit hobbling of their votes seemed less necessary. When Berle and Means made their analysis (as of January 1, 1930) they found only seven voting trusts in operation among the largest 200 corporations. None of the seven was in the billion-dollar class, and only two of the seven included men who clearly represented a Morgan interest.

Next came the pyramiding of companies, each holding a minority of the stock in the company below. In its simplest form this appears in the duPont-General Motors connection. The duPont family controls E. I. duPont de Nemours by a minority holding. Then duPont de Nemours and other duPont interests hold a minority of General Motors. The actual duPont family interest in General Motors was therefore (according to the Berle and Means estimate) about 30% of the 33% held by the duPont companies, or roughly a 10% equity in General Motors. (Of course the Morgan firm also has a strong financial hold on General Motors.)

But very many pyramids have been constructed with three or more companies set in between the financial group at the top and the operating companies which they control. Insull used this technique in building his utility system. Morgan also leaned heavily on it in his post-war utility developments. And the Morgan proteges, the Van Sweringen brothers of Cleveland, carried it to the most extreme form in assembling the railroads which they were adding to the Morgan railroad empire.

As a further refinement in the fine art of pyramiding, the promoters

took to issuing large blocks of non-voting stock as well as bonds and placing the whole voting control in one relatively small class of stock. In *The Holding Company,* Bonbright and Means describe the maze of holding companies with special blocks of voting stock in the Byllesby-Mellon utilities group (United States Electric Power Corp.-Standard Gas & Electric Co.). "An equity interest of $3,000,000 or less than three-tenths of 1 per cent of the whole, is thus able to control $1,200,000,000 of assets!"[12]

## *Billion-Dollar Corporations* *

The following list of the 18 billion-dollar non-banking corporations (as of January 1, 1932) shows the methods by which each one was controlled at that time. Two of these giants (Alleghany Corp. and Middle West Utilities) have been broken down by receiverships since that date.

### MINORITY STOCK OWNERSHIP

Standard Oil Co. of New Jersey and Socony-Vacuum Oil Co., Inc., are both controlled by the stockholdings of the John D. Rockefeller family and endowed institutions. These amounted in 1932 to 16.47% of the total in Standard Oil of New Jersey and 20.82% of the total in Socony-Vacuum.[13]

### CONTROLLED BY "LEGAL DEVICE"

*Railroads*

Alleghany Corp.—pyramiding of holding companies.** Van Sweringen brothers operated with Morgan backing. Reorganizing under Federal Bankruptcy Act. (See above, page 109.)

*Utilities*

Cities Service Co.—special vote-weighted preferred stock of which a controlling block is held by Henry L. Doherty.

Middle West Utilities—pyramiding of holding companies. In receivership. (See above, page 110.)

United States Electric Power Corp.—pyramiding of holding companies and issuing of special voting stock. Mellon-Byllesby have joint control.

* Classification by broad type of control and, with a few exceptions, the statements on stock ownership are taken from Berle and Means. We have noted above that the "legal device" group represents minority ownership reduced to an absolute minimum percentage. In the "management" group control is entirely separated from ownership and is buttressed by the banking power of the controlling interests.

** Includes the following railroad systems as subsidiaries of the several holding companies: Chesapeake & Ohio; Erie; New York, Chicago & St. Louis ("Nickel Plate"); Pere Marquette; Wheeling & Lake Erie. Also controlled by the holding companies through a large minority interest: Missouri Pacific; Chicago & Eastern Illinois.

*Industrials*

General Motors—duPont interest is held through duPont companies with some additional direct stock interest. Morgan as banker also has strong representation on the board: two partners; Baker, chairman of First National Bank, New York; and three other officials of Morgan companies. But duPont men outnumber Morgan men on finance committee and on board as a whole.

### Controlled by "Management"

*Railroads*

Atchison, Topeka & Santa Fe Railway Co.—largest stockholders each own less than 1% of stock. Morgan and Guaranty Trust Co. have financial control of management with at least four directors, all of whom are members of the executive committee.

Baltimore & Ohio Railroad Co.—largest 20 stockholders own less than 9% of stock. Kuhn, Loeb & Co. are principal bankers for road but have no representation on the board. Morgan group is represented on board and executive committee by Morron, official of First National Bank of N. Y. Apparently alliance and joint control by Morgan and Kuhn, Loeb.

New York Central Railroad Co.—largest stockholders are Delaware and Hudson Co. with 10% and a Union Pacific Railroad subsidiary with 4%. Smaller but also important are holdings of the George F. Baker and Vanderbilt interests, and of Rockefeller Foundation. Morgan-First National Bank-Guaranty Trust Co. hold financial control of management. Executive committee consists of two officials of road, two Morgan-Baker representatives (Reynolds and Taylor), two Vanderbilts, and R. F. Loree, a vice-president of Guaranty Trust Co., who is son of the president of Delaware & Hudson Co. Rockefeller interests are represented on the board of directors by Bertram Cutler, but Cutler is not a member of executive committee.

Pennsylvania Railroad Co.—largest 20 stockholders own less than 3% of stock. Kuhn, Loeb & Co. have been the regular investment bankers issuing bonds for the road, but Kuhn, Loeb have no representation on board of directors. Philadelphia banks on which Morgan was represented until 1934 (Fidelity-Philadelphia Trust Co. and Girard Trust Co.) commonly serve as bond trustee. Morgan is indirectly represented on the board by at least four men: Gates, former Morgan partner, now president of University of Pennsylvania; Percival Roberts, Jr., director of U. S. Steel Corp.; Donald R. McLennan, director of Pullman, Inc., and beneficiary of Morgan preferred lists; Zimmerman, president of United Gas Improvement Co. of Philadelphia. Keen rivalry with Morgan interests was revealed in activities of Pennroad Corp. and Morgan indirect influence in Pennsylvania Railroad is clearly secondary to the power held by "management" with Kuhn, Loeb backing.

Union Pacific Railroad Co.—largest 20 stockholders own about 10% of stock. Harriman family owns less than 2%. Kuhn, Loeb shares financial control with Brown Brothers Harriman & Co. Directors include two of the Harriman family (with W. A. Harriman as chairman), and James P. Warburg of the Bank of the Manhattan Co. as indirect representative of Kuhn, Loeb. Chairman of National City Bank is also a member of executive committee.

Southern Pacific Co.—largest 20 stockholders own about 12% of stock, with Dutch investors, Dodge family (of Phelps Dodge Corp.), Arthur Curtiss James, and E. S. Harkness in the lead. It is regarded as a Kuhn, Loeb road,

because for many years they have served as its bankers in floating bond issues. Kuhn, Loeb are not represented on the board of directors which includes, along with officials of the road, two representatives of Phelps Dodge Corp.; president of First National Bank of New York, of the Morgan inner circle; and at least one other man (Thos. N. Perkins of Boston) who has been closely associated with Morgan policies. Since Morgan has become actively interested in Phelps Dodge Corp. it seems clear that Morgan has genuine influence in the road, although Kuhn, Loeb continues to serve as its banking house.

*Utilities*

American Telephone & Telegraph Co.—largest 20 stockholders own less than 5% of the stock. Morgan organized the combine originally and has retained financial control. Of the 19 directors in the parent company, five are definitely Morgan men (although none is a partner) and three others are Boston bankers who are directors of the Morgan-controlled General Electric Co. Gifford (president) and C. P. Cooper (vice-president) have been tied to the Morgan interest by participation in management of other Morgan companies (Gifford, on U. S. Steel and First National Bank; Cooper, on Mutual Life Insurance Co. and Guaranty Trust Co.). Of the other nine directors at least four have some other definite association with Morgan interests. The Rockefeller representative (W. W. Aldrich) stands almost alone against this array of Morgan forces. The parent company owns a majority or all of the stock in most of its subsidiaries. This means that the numerous directors of these subsidiaries must follow the general line laid down by the parent company. Two of the subsidiaries include a Morgan partner among their directors.

Consolidated Gas Co. of New York is now under financial control, but several groups are interested. National City Bank has been the banker. National City Bank, Morgan, and two real estate firms are represented on the board of directors with no apparent relation to stock ownership.

Commonwealth & Southern Corp. is under financial control (Morgan), reënforced by two small blocks of stock held by other Morgan companies. All the directors are officials of this company or an important subsidiary except S. Sloan Colt, president of Morgan's Bankers Trust Co.

Electric Bond & Share Co. was set up originally to take over utility interests held by General Electric Co. Its stock distributed to stockholders of General Electric is widely scattered. Morgan-Bonbright interests hold control through banking services and representatives on board of directors. While this company is classified as "management controlled" it exercises control over subsidiaries through minority holdings which approach the pyramid type of structure.

*Industrials*

U. S. Steel Corp. was originally promoted and organized by J. P. Morgan & Co. who have retained financial control. The largest 20 stockholders held in 1930 only 5% of total stock. Practically every director is closely associated with Morgan interests.

## *Control and Ownership*

In our analysis of the structure of monopoly capitalism in the United States we have, of necessity, emphasized several of the various ways in which Morgan controls industrial corporations where his actual ownership is small. Control apart from ownership is characteristic of finance capital.

But control is sought and used for the purpose of extracting profits, under various technical forms. And in the complexity of the finance-capital structure, banks and bankers have had richer pickings from the advancing of credit, the trading in capital, the promotion of mergers, and the manipulation of protective committees and reorganizations, than they could gather in merely from the ownership of stocks and bonds. But, of course, Morgan and his associates have undoubtedly salted away large parts of their private fortunes in investments of various kinds: government bonds, corporation bonds, stocks, real estate, and mortgages. They doubtless change their holdings as they see opportunities for profit by buying and selling on the Stock Exchange. They doubtless also seek diversity of interests, so as to protect their fortunes. These probably include holdings in most of the large corporations.*

But the members of the Morgan firm do not depend on their stock ownership as the basis of their power. This has developed from their control of the banking mechanisms, the sluices through which must pass the great streams of capital needed, under the profit system, for modern large-scale industry.

* As a means of concealing the extent of their holdings and as a convenience in manipulating their property so as to show "losses" to offset "income" and reduce their taxes, big capitalists quite commonly use dummy companies or the names of employees as a screen for their stockholdings.

## CHAPTER VIII

# CONTROLLING THE GOVERNMENT

The federal constitution was drafted by a group of slaveholders, landowners and merchant-bankers, and the richest American of his day was the first President of the United States. By comparison with the oppressive restrictions which had been laid upon colonial industry to protect the monopoly position of the rising British bourgeoisie, the constitution marked the advance won in the American Revolution of 1776 and cleared the ground for the development of an independent capitalist society in the United States. But in the newly emancipated colonies there were sharply conflicting economic groups. The constitution reflected the victory of property interests over the farm debtors, the rank-and-file of revolutionary veterans and the workers in the young trading and industrial centers.

In its original form the constitution was an openly reactionary document, setting up elaborate devices to prevent political expression by the people. But it aroused such a storm of popular resentment that the first Congress (1789) submitted ten amendments which became a part of the constitution in 1791. This so-called "Bill of Rights" guarantees freedom of speech, press and assembly; it prohibits "unreasonable searches and seizures" and excessive fines and cruel punishments. In 1865 chattel slavery was formally abolished and in 1870 another amendment stated that "the right of the citizens of the United States to vote shall not be denied or abridged by the United States or by any State on account of race, color, or previous condition of servitude." These principles have been repeatedly violated and are not respected by most of the reactionary finance capitalists who talk most loudly to-day about defending the constitution. The Bill of Rights must be defended against the forces of reaction and the threatened tyranny of fascism.

In spite of the Bill of Rights, the constitution has served as the bulwark of the exploiters against the workers. With the possible exception of the years of so-called "Jacksonian democracy"—two decades before the Civil War—property interests have continuously controlled the government. And with the development of monopoly capitalism it has been increasingly the instrument of the ruling minority within the capitalist class.

The class monopoly in land and in the means of production is a basic assumption running through every phase of government and law in the

United States. The right of the landowner to receive the highest possible rent and of the employer to take from his workers the highest possible amount of surplus value is practically unlimited. When workers seriously resist these basic robberies they run into a web of legal difficulties and behind these they face the sinister power of the armed capitalist state: police clubs, tear-gas bombs, machine guns, third-degree tortures and, for fighting leaders, long years in prison. National Guard and U. S. Army have repeatedly been thrown into "strike areas" to give bloody reminders that the whole power of government is at the disposal of the capitalist class.

## *The Political Structure*

The structure of government in the United States has always been shaped to prevent control by the masses.

For several years after the founding of the republic, state constitutions limited the suffrage to male citizens having some property. Slaves were never reckoned as citizens, and throughout the South technicalities are still in force to keep Negroes away from the polls. Sex discrimination against women voters was wiped out in 1919, but the suffrage is still far from universal even among the white population. Barriers block the road to citizenship for foreign-born workers and stiff requirements about length of residence in a given district rule out masses of jobless workers. These limitations on suffrage are not, however, the most important aspect of the situation.

Even voters who support the major parties have long since learned that between their ballots and the actual passing of laws, setting of policies and administration of government, stands an almost impenetrable labyrinth of "inside" influences and decisions. The functions of government are divided and subdivided to give the maximum opportunity for escaping responsibility to the voters. And the representatives and officials elected by "the people" are merely cogs in party machines controlled by groups of the capitalist class.

The division of power between the states and the federal government has been praised in many learned volumes. Whatever may have been the merits of this division in the early days, it is clear that with the development of nation-wide corporations dominating the economic life of the country the uncertain dividing line between state and federal power is a source of confusion and has been used continuously for the profit of the capitalist class. It has played into the hands of ruling minority groups who have been determined to hold back social legislation demanded by the workers while they secured special privileges for themselves.

When workers press their demands and win some slight legislative advance, the capitalist interests fall back on the other basic division of the government, the "checks and balances," so-called, which were deliberately set up by the federal and state constitutions to prevent expression of the popular will. Legislative, executive and judicial functions are

separated within each state and in the federal government. Laws must be approved by two separate legislative bodies, House and Senate or their equivalents in any state. If an act is vetoed by president or state governor * it can become law only if it is again passed, over the veto, by a larger majority than that ordinarily required. Laws may be passed under pressure from the rank and file of voters, but then they must be administered by executives who not uncommonly sabotage the intent of the law. And if the law, even so, becomes too troublesome to the capitalists, they can carry it into court and have it declared unconstitutional.

Washington observers have pointed out the bearings of this system in the 1935 session of Congress. For example, the *Federated Press* correspondent (June 21, 1935) writing from a liberal labor viewpoint said:

> As one bill after another is rushed through Congress in its closing days, two thoughts bulk large in the legislators' minds—the next elections and the Supreme Court. There is a certain carelessness, almost an absent-mindedness in the handling of the matters immediately at hand.... The administration is ready to push through almost anything that has good vote-getting possibilities. If powerful interests object to this or that, they can be tipped off that the Supreme Court is much closer around the corner than ever prosperity was. It all looks like the answer to a buck-passer's prayer. An added advantage for the administration is that the more popular the legislation rejected by the Supreme Court, the greater will be the election reaction in favor of its general contention that the Court has tied its hands from doing all sorts of wonderful things.

Action is taken in response to popular appeal only when the political machine of the dominant party—or of both old parties—sees that the machine itself will benefit thereby. In each city, county and state, and on the national stage, the old party machines are organized on a hard-boiled business basis. They serve various interests which want favors from the government and in return they are supported by these interests. Technique differs somewhat according to the stage of operations. Methods that go in New York, Philadelphia, Chicago or San Francisco have to be kept in the background in state and federal affairs. When President Harding carried such methods into his cabinet in Washington they created a (temporary) scandal.

A city machine dispenses favors to real estate, traction and local utility interests. The city government which it controls has immense purchasing departments and lets large building contracts. It administers the licensing of peddlers, newsdealers, food shops, municipal piers, etc. During the crisis it has handled millions in relief funds. It takes in much "honest graft" from these varied transactions. It also tolerates (and enjoys) revenue from crooks, gangsters and keepers of gambling resorts and houses of prostitution. It keeps the voters in line by a wide distribution of appointments, a discreet use of cash around election day, and a

* The governor of North Carolina has no veto power.

small amount of charity judiciously handed out to individuals by the district leaders and their assistants.

> He (the machine politician) gives $100 to charity, but accepts $1,000 for voting against an ordinance for better housing. He pays the funeral expenses of the man who dies because the boss killed the law to safeguard the machinery on which he worked. He helps the widow, whose suit for damages was blocked under a system he was paid to perpetuate....
>
> The central factors in his organization will be, however, his control of the patronage and his industrial allies,—one furnishing the army and the other the munitions. As cities, counties, and states vary, other factors may or may not be added, but in all cases these elements are common—the jobs and corporate connections.[1]

The city machine is essentially a capitalist apparatus, chiseling in on the profits of the corporations, controlling some of the reactionary labor leaders, and always ready to furnish police protection for scabs and to break the heads of strikers and demonstrators.

City machines (and county machines in the rural districts) form the broad base of the political pyramid, indispensable to the old parties in their manipulation of state and federal affairs. State and national committees depend on the city and county machines to "get out the vote."

"Not since the days of Andrew Jackson, one hundred years ago, when the earliest model of the modern political machines, founded on patronage and sustained with campaign funds, was constructed has there been any candidate for President named who was not picked by the machine leaders." Frank R. Kent, political journalist now running a column in the *Wall Street Journal,* made this statement in 1928.[2] He pointed out that the apparent exceptions—Cleveland, Wilson and Bryan, three Democratic nominees opposed by Tammany in New York—were supported by the Democratic machines in other states. Franklin D. Roosevelt in 1932 made peace with Tammany and carried a Tammany leader, Jim Farley, into the cabinet.

At the same time, the old party machines all the way up from city to federal politics are tied in with business interests. This has been repeatedly exposed and masses of material are available to justify such conclusions as the following: *

> While the candidates who buck the business interests rarely get elected to, and even more rarely stay in, the state offices, the election of such men to the Presidency is under existing conditions practically impossible.... It is a simple fact that not once since the Civil War—and not more than twice in the whole history of the country—has a Presidential candidate been chosen to whom the bulk of the business interests were opposed.[3]

* For a careful academic analysis, see, for example, *The American Party System* by C. E. Merriam and H. F. Gosnell, and *Money in Elections,* by Louise Overacker. For a journalist's view, see the two books by Frank R. Kent, *The Great Game of Politics* and *Political Behavior.* For a frank story by a former vice-president of the International Longshoremen's Association who played machine politics in New York, see *Dock Walloper,* by R. J. Butler and Joseph Driscoll.

Since 1912 the power of the banks and great industrial units in politics has very greatly increased. Since 1920 they have become, in the Eastern States anyway, absolutely irresistible. ... *Any one who now thinks it possible to carry a national election for any candidate for whom the great New York financial forces have a strong distaste is simply deluding himself.*[4]

It is a recognized fact that money counts enormously in an election campaign. Kent says, for example: "... in politics it is the side with the most money that almost always wins." The huge campaign funds reported to the public and used for printing, postage, advertising, radio broadcasting, meetings, office space and campaign workers' wages are only part of the story. Reported expenditures of national and state organizations in the 1928 presidential campaign totaled more than $16,500,000. More than two-thirds of the total was given in contributions of over $1,000.[5] But in presidential campaigns, as Kent points out: "Always, while the Treasurer is accumulating one fund, later to be accounted for, another is being accumulated which never is accounted for." [6]

Once the candidates are installed, whether as law-makers or executive officials, they render the political services expected of them by the party machines and the capitalists that placed them in office. The voters must be given just enough satisfaction to keep them in line for the next election, but the serious business of government is service to the capitalist class.

## *Democrats and Republicans*

In the imperialist era, with its sharpening of inner capitalist contradictions and of conflicting interests on the world stage, a tight grip on state and federal governments through *both* the old parties became increasingly important to the largest financial-industrial interests. The petty capitalist groups and non-industrial interests which formerly controlled the Democratic Party have long since been shoved aside. "There is no authentic difference between the two parties on any of the fundamental issues of to-day." This statement by a professor of history and government sums up a well-recognized fact.[7]

After the nominating conventions of 1932 had selected Hoover and Roosevelt and adopted their platforms, other interesting admissions came from those who know.

There was a distinction but hardly a difference between the spirit of the Republican and Democratic gatherings. The distinction was this: the Republicans chose what they regarded as the easiest way to continue in office while the Democrats chose what they regarded as the easiest way to get into office.[8]

From the speculative viewpoint, Wall Street is not greatly concerned whether the victor in the Presidential campaign proves to be Mr. Hoover or Mr. Roosevelt. The vocal partisanship that occasionally is heard in the commission houses is largely superficial. The financial community probably would salute either candidate with equal enthusiasm.[9]

Let me impress on you once again that the similarities in the two parties are much more impressive than the differences. Make a list of the Roosevelt ideas and you will find that they correspond very closely with the Hoover ideas. There is no difference in aim. There are differences in method and approach.[10]

It is not unusual to find partners in big banking houses and corporation law firms and officials of large corporations dividing their support. So J. P. Morgan and most of his partners are Republicans, but Russell C. Leffingwell and possibly others in the firm are Democrats. John W. Davis, one of the chief Morgan lawyers, is conspicuous in the Democratic Party along with Owen D. Young, head of the Morgan General Electric Company and Newton D. Baker, counsel for Morgan utilities.

Less frequently it is revealed that the same individual or the same family contributes to the campaign funds of both old parties. Insull's contributions in the 1926 campaign for senator from Illinois are the classic example. Before the primaries he gave $10,000 for one Republican (Deneen); then $15,000 for the Democratic candidate (Brennen) and a total of $125,000 for the successful Republican nominee, Frank L. Smith. The duPont family have supported both parties. So have the Lykes brothers, heads of a steamship company which was sucking in large subsidies under the guise of contracts for carrying the mails.[11]

In state and local politics, such "impartiality" is a commonplace of business policy. Anaconda Copper Mining Co. has long controlled both major parties in Montana. "The American Sugar Refining Company has no politics of any kind.... Only the politics of business." [12] Railroads, Standard Oil, and the public utilities have also conspicuously pursued "the politics of business" in both state and federal affairs.

Just as financial-industrial interests operate across party lines, so party machines work together when it seems profitable for them to do so.

Spoilsmen of both parties unite to maintain the system upon a bi-partisan basis.... The "gang," by whatever name usually known, is made up impartially of representative spoilsmen of the theoretically hostile parties. Spoils Republicans join spoils Democrats and become true "spoilsmen" who control legislation. This becomes a living reality, while the party groups become mere fiction.[13]

For many years, for example, the Democratic Party in Philadelphia "was a section of the Republican organization that campaigned under the Democratic label in order to obtain minority positions." [14]

But party machines do usually wage genuine fights for office, since the control of patronage and the power to dispense political favors, large and small, are the basic sources of "velvet" for party bosses. The extent of political patronage is indicated by the fact that even before the enactment of the National Industrial Recovery Act and the thousands of temporary federal jobs which it created, President Roosevelt and other federal officials had at their disposal federal appointments for over 80,000

jobs outside of the Civil Service register.[15] In addition to federal appointments are the many patronage posts at the disposal of governors and mayors.

### *Officials*

Most of the political appointees are regular party henchmen, men (and sometimes women) who have made politics their chief source of livelihood. But of course there is considerable overlapping between the political and economic worlds. Successful politicians, like Al Smith and his closest Tammany friends, may blossom out as bankers and corporation executives, and some corporation executives and bankers step over personally into political activity. But in ordinary times few important finance capitalists have held political office. Somewhat larger is the number of their lawyers, their lieutenants in industry, and their friends and relatives who have "gone into politics."

During the World War when industry was to be mobilized in the service of patriotism (and super-profits) swarms of large corporation executives and Wall Street men for the first time descended upon Washington to manage the special war emergency bodies. John D. Ryan, of Anaconda Copper Mining Co. and the National City Bank, and Edward R. Stettinius, a Morgan partner, were made assistant secretaries of war.* Two of Wilson's appointees in 1913 were also important as Wall Street links. William G. McAdoo, Secretary of the Treasury, had combined active Democratic politics with a financial career in New York City involving close relations with Morgan banks. William C. Redfield, Secretary of Commerce, had been for several years a director of the Equitable Life Assurance Society, at that time a Morgan-controlled company.

With the passing of the World War and its president, Woodrow Wilson, Andrew Mellon, Secretary of the Treasury appointed by Harding and retained by Coolidge and Hoover, became for some years the one obvious personal link between the cabinet and the world of high finance. But Hoover, as Secretary of Commerce under Harding and Coolidge, had maneuvered well for Wall Street backing and when he entered the White House he brought into his cabinet more obvious representatives of financial interests than had been gathered into the cabinet of any earlier president.

Mellon remained in the Treasury until Hoover sent him as ambassador to Great Britain (to prevent uncomfortable disclosures) and brought in the wealthy Ogden L. Mills as Mellon's successor.

Henry L. Stimson, Hoover's Secretary of State, was first cousin of two Bonbright partners, close allies of Morgan.

Ray Lyman Wilbur, Secretary of the Interior, was president of a university (Leland Stanford) endowed with millions of power company

* Herbert L. Satterlee, son-in-law of the first J. P. Morgan, had been Assistant Secretary of the Navy under Theodore Roosevelt, while Robert Bacon, a former Morgan partner, was Assistant Secretary of State.

holdings. For good measure, he was given as legal assistant the son-in-law of Paul Shoup, president of the Southern Pacific Railway.

Charles Francis Adams, Secretary of the Navy, was a wealthy Bostonian, director of 33 corporations including the American Telephone & Telegraph Co. His daughter later married a son of J. P. Morgan.

Robert P. Lamont, Secretary of Commerce, was president of the aggressively anti-labor American Steel Foundries Co. and director of several Morgan-dominated corporations. Lamont was succeeded in 1932 by Roy D. Chapin, president of the Hudson Motor Car Co.

Other appointments, too many to enumerate here, also showed Hoover's close tie-up with Wall Street interests. Note only his three important ambassadors: at London, Charles G. Dawes, Chicago banker; at Paris, Walter Edge, brother-in-law of Walter C. Teagle of Standard Oil; at Berlin, Frederic M. Sackett, former utility official who had been a spokesman for utility interests in the United States Senate.

Roosevelt, having announced that he would drive the money-changers from the temple, started with fewer obvious Wall Street appointees. But the Treasury was tied to Wall Street through the Secretary, William H. Woodin, a close friend of the Republican T. W. Lamont, and the Undersecretary, Dean Acheson, member of a Washington law firm often consulted by Morgan's chief counsel.[16] The Secretary of Commerce, Daniel C. Roper, was known as a faithful political servant of the cane sugar interests.

With the setting up of emergency bodies to administer the Roosevelt recovery program there began what a Washington newspaper man described as a "steady infiltration of its own (Wall Street's) picked lieutenants into the staffs of the NRA" and other agencies of the government. "Hundreds of men whom it has trained" were appointed.[17] A few men in key positions have stood out most clearly in the public eye. For example:

S. Clay Williams, president of the anti-union low wage R. J. Reynolds Tobacco Co., was for some months chairman of the National Industrial Recovery Board.

W. A. Harriman, banker and effective head of the Harriman interests in railroads, aviation, etc., held various important posts, practically throughout the life of the NRA.

Edward Stettinius, Jr., son of a deceased Morgan partner and himself former official of General Motors and now chairman of the finance committee of U. S. Steel Corp., served for six months in 1933 as liaison officer between the National Industrial Recovery Board and the Industrial Advisory Board.

This Industrial Advisory Board, within the NRA, was made up of seven magnates and included at one time or another Alfred P. Sloan, Jr., of General Motors, Walter C. Teagle of Standard Oil, Gerard Swope of General Electric, and Pierre duPont. In the words of General Johnson, certain members of this board "walked in and out of my office whenever they discovered anything that needed attention."[18]

A larger board, a sort of council of industry, was set up outside of the NRA to offer long-range planning and advice through the Department of Commerce. This Business Planning and Advisory Council consisted of about the same sort of men as the Chamber of Commerce and the National Association of Manufacturers.

Notoriously, also, the administration of NRA codes was in most industries turned over to the trade association of the industry.

### *Efforts at Regulation*

Since administrative officials are themselves of the capitalist class or have made a political career through service to that class, they naturally maintain the class character of the government. We have had the great American farce of regulating capitalist concerns—to the advantage of the capitalists. The cast includes mine inspectors who do not enforce safety standards affecting the lives of miners; building and tenement house inspectors who "overlook" violations and permit insanitary and hazardous conditions in buildings that workers have to occupy; steamboat inspectors who pass unseaworthy ships and defective lifeboats; and courts and commissions that permit excessive utility rates.*

Electric utilities are perhaps the most spectacular example to-day of a "regulated" industry, that has actively and effectively undermined regulation. Their operations have been shown in detail by liberal writers, and their lobbies and propaganda are notorious.**

Utility regulation depends on laws made by the legislative bodies, administered by commissions and interpreted by courts. Actual enforcement of "fair rates" based on "fair valuation" would be difficult, because of the vagueness of definition, even if courts and commissions were aggressively eager to serve the consumers. But whenever any genuine attack on monopoly profits is attempted, the corporations with their permanent staffs of expert accountants and lawyers spend literally millions of dollars in long-drawn-out battles. Even if commissions and courts were really determined to regulate the corporations, they would find the political machines withholding the funds necessary to match the forces of the big companies.

Two liberal students of utility regulation point out certain elements in the problem as follows:

> The utilities "by recourse to protracted trials and judicial reviews" have "succeeded in reducing utility regulation to such confusion that for all practical purposes the regulating statutes have virtually ceased to exist as operative law." The state commissions "have most impressive hearings and go

* We shall see in Chapter XVI the way in which regulation has served the railroads.

** For statements on this subject see H. S. Raushenbush, *The Power Fight,* 1932; C. D. Thompson, *Confessions of the Power Trust,* 1932; Ernest Gruening, *The Public Pays,* 1931; Jack Levin, *Power Ethics,* 1931.

through all the motions of pretending to safeguard the public's rights. The records show, however, that only so much regulation exists as the Supreme Court decides shall exist. For over a decade the court has been growing more and more conservative in this matter.... But experience compels us to add that the public service commissions themselves have often been more interested in not offending the utilities than in fearlessly defending the public interests.[19]

That commissions are usually appointed "on political, not technical grounds" is also admitted by these writers. They are sometimes handpicked by the utilities and are almost always ignorant of the technical problems involved. Occasionally the connection with the utilities is as open as it was in Connecticut during the governorship of John H. Trumbull (1925-1931). As governor he had the appointing of commissioners to regulate utilities and at the same time he was a director of Connecticut Light and Power Co.

As a result of such "regulation," high rates for electric current are maintained—a direct tax on every worker's family for the benefit of monopoly capital. One of the sharpest recent statements on this subject came from the Power Authority of New York State, concerned with the proposed St. Lawrence River Power project and entirely distinct from the New York State Power Commission which regulates the rates charged by private electric utility companies. According to the Power Authority:

The cost of distributing electric power in New York State warrants rates only slightly above half the average now prevailing there.... This would mean a reduction of the average monthly bill for electricity from $3 to $1.65.[20]

The federal income tax is another notorious illustration of failure to accomplish the purposes demanded by the voters. The law is weakened in the first place by large issues of tax-exempt government bonds which are purchased by many wealthy men as a solid conservative block of investment.* And in the second place it allows deductions from income for capital losses. We noted in Chapter II how this relieved the Morgan partners from paying any federal income tax for several years. Andrew Mellon's chief contribution as Secretary of the Treasury was the ingenuity developed in his regime for justifying refunds from federal income taxes already paid. Every ambiguity in the law, every complexity in accounting and every shady device for concealing ownership were generously weighed in favor of the wealthy capitalist or the big corporation. Such tax refunds, under administrative discretion, are still occurring but they reached a notorious peak during the ten years when Mellon was in the Treasury. They totaled about three billion dollars and included $96,000,000 to the

* Robert H. Jackson, counsel of the Bureau of Internal Revenue, stated at a tax hearing before the Senate Finance Committee, on August 6, 1935, that "our tax laws wholly fail to reach about 37% of the income actually enjoyed from all sources by those whose incomes are over a million dollars a year." (*New York Times*, Aug. 7, 1935.)

U. S. Steel Corp. and some $14,000,000 to corporations in which Mellon had a definite interest or his family held control.*

When Mellon later as a private citizen entered a personal claim for a refund, the Democratic administration made a popular political move by countering with a suit demanding additional payments from the former Secretary of the Treasury. In the course of the suit, fresh light was thrown on methods within the Treasury and on the technique of tax evasion by fake transfers of property, paper losses, and private holding companies.

Investigations have often served as prologues to the various acts in the comedy of regulation. They are popular with lawmakers who are trying to build a reputation as "liberals" since investigations give an appearance of protecting popular interests against big business. Actually, of course, an inquiry can be steered away from the most vital facts and seldom leads to effective action.

The positive difficulty of assembling facts in certain fields and the resulting lack of adequate data are also important,** but these problems are secondary to the basic determination of the capitalists to evade regulation or to manipulate it to their own profit.

Of course the failure of regulation in the United States has reflected the political weakness of the liberal and anti-capitalist forces. In registering this we must not overlook the fact that, even so, a few basic principles regarding protection of life and health, responsibility for unemployed workers, limits of monopoly extortion and the right to tax profits and capitalist incomes have been admitted into the body of American laws. Also while investigations have seldom led to vigorous action, they have given publicity to facts about conditions and relationships under capitalism. These achievements offer valuable focal points for a much wider and more aggressive political struggle to improve workers' conditions and to attack the power of finance capital.

## *Lobbies and Propaganda*

That the large corporations and their executives dictate the policies of government has been a matter of common knowledge ever since the era of the muck-rakers. For about ten years after 1900 a group of enterprising young journalists and editors were able to gain a wide audience through a few popular magazines for their true stories of corruption and intrigue behind the political scenes. The era came abruptly to an end when the

* These refunds to Mellon companies were: $1,590,574 to Westinghouse Electric & Manufacturing Co.; $2,641,019 to Bartlett-Hayward Corp. (Koppers); $3,035,620 to Aluminum Co. of America; $1,955,051 to Standard Steel Car Co.; $3,996,080 to Gulf Oil Corp.; $874,255 to McClintic-Marshall Construction Co. See Congressional Record, 71st Congress, 3d Session, pages 873 and 11,597.

** For example, the recognized lack of full figures on the xport of munitions and the impossibility of enforcing an embargo.

financial powers closed down on the muck-raking magazines, throttling some by credit boycott and acquiring others to manipulate for their own purposes.

The great lobbies uncovered in those days set a pattern which has been further developed and, possibly, refined, but which in essentials is still the "invisible" government behind the party machines and behind the old party votes of the masses.*

Standard Oil before 1911 had spent hundreds of thousands of dollars maintaining connections with Congress, state legislatures, and party machines to ward off troublesome legislation and prevent hostile appointments. It guided the selection of district attorneys and judges. It had some of its own men in key positions. John D. Archbold, intimate friend and successor to John D. Rockefeller as head of Standard Oil, carried on secret correspondence with and made secret deposits for senators and congressmen. Standard Oil undermined the work of the Industrial Commission set up by McKinley in 1898 as a popular gesture against the trusts.**

Another comprehensive and systematic lobby was maintained by the leading life insurance companies. The Armstrong investigation (New York State, 1906) uncovered their guiding and bribing of state legislators. Each of the leading companies—then New York Life, Equitable Life and Mutual Life—maintained a legislative department and spent freely for undefined "legal expenses." But the companies divided all the more important states among themselves and kept each other informed.

Other great pre-war lobbies included the food and drug manufacturers' fight against inspection and honest labeling. In 1935 they were still blocking such elementary requirements as honesty in advertising. Woolen textiles lobbied for higher tariffs. Cotton textiles lobbied against child labor laws.

Since the war lobbying has become even more notorious. To mention only a few examples:

The railroads spent some $3,000,000 pushing the Transportation Act of 1920. In 1935, they had divided the country up for lobbying purposes. Each major system and its officials had assignments to cover certain senators and congressmen and to reach the most influential citizens in their districts.

Shipping interests ran a triple game: Controlling the Shipping Board, so as to pick up bargains in government-owned ships; pushing the bill passed in 1928 as the Jones-White Act for cheap government loans to build new ships; and receiving mail subsidies far beyond the amounts of mail actually carried.

Airplane companies having absorbed millions of government money

* For an interpretive record by one of the leading journalists of that era see the *Autobiography of Lincoln Steffens*. For a concise historical sketch of the most important lobbies (without any valid political interpretation) see the Supplement to *The Annals* of The American Academy of Political and Social Science, July, 1929.

** For the story of Standard Oil politics see *God's Gold*, by John T. Flynn.

during the war (in a major scandal never yet completely aired) pushed actively for military orders and obtained large air-mail subsidies for commercial air-transport lines.

Strongest of all has been the electric-power lobby, working to grab all hydro-electric sites and opposing by every means—fair and foul—the few progressives desiring federal developments. It was stated in Washington in May, 1933, that 30 senators were spokesmen for utility companies.[21] When a federal bill proposed (1935) to abolish such clusters of holding companies as the utility interests have set up, they mobilized all their forces against it. Besides their wire-pulling behind the scenes and direct lobbying in Washington, they obtained systematic press publicity and bombarded with letters all owners of utility securities urging them to bring pressure on Congress. The Associated Gas & Electric Co., one of the most intricate utility pyramids in the country, was caught paying for thousands of telegrams to Congressmen, many of them signed with names copied from telephone directories and payrolls.*

Most closely intertwined with the federal executive departments have been the several branches of the munitions industry. Much material on this relationship was brought out in the hearings before the Nye Committee. For example:

The duPont company maintains close contact with both Army and Navy. When duPont wanted to sell a quantity of a certain powder to the Netherlands government, a gun of suitable type for demonstrating the powder was loaned to duPont by the Army. The gun was shipped to Netherlands by duPont (and later returned to the United States) and the shipment was officially recorded as from some export broker.[22] The Navy arranged coöperation between E. W. Bliss Co. and duPont in connection with a sale of torpedoes to the Argentine government. Incidentally, this coöperation, although involving for duPont a sale of only $22,500, yielded duPont a gross profit of $9,375 (over 40%) on this one transaction.[23] Several other similar incidents came to light.

Airplane manufacturers also have had government help. A memorandum dated August 5, 1933, and circulated by the Bureau of Aeronautics of the Navy, included the following important sentence:

> The War and Navy Departments will encourage the American aeronautical industry in developing foreign business and assist in such development so far as consistent with national policy and the needs of the national defense.[24]

In quoting this memorandum and other evidence from the Nye hearings the Foreign Policy Association says:

* On utilities' propaganda up to 1934 see report of Federal Trade Commission on *Efforts by Associations and Agencies of Electric and Gas Utilities to Influence Public Opinion*, published as Part 71A of Senate document 92 of 70th Congress, 1st session.

In several instances, according to the testimony, the War and Navy Departments allowed the aviation companies to sell planes or engines under construction for the United States government to foreign countries in order to make prompt delivery and keep their factories in operation.[25]

Driggs Ordnance was informed by the War Department in 1929 that the department "would be willing to release to your company the designs of the latest anti-aircraft material, provided you had a contract with a foreign government for a production quantity of anti-aircraft material which you would agree to manufacture in the United States." Driggs was negotiating sales to the Turkish government. When it reported competition from Vickers and other European companies, it obtained the aid of the Navy Department in Washington. Inspection by the Turkish government of anti-aircraft guns on the *Raleigh* was authorized and the *Raleigh* was sent to Constantinople for the purpose.[26]

L. Y. Spear, vice-president of Electric Boat, explained at the hearings that whenever they encountered foreign competition they "endeavored to get the American government to do its part." He gave two examples of valuable aid from the State Department, in Brazil (1922) and in Italy (1923).[27]

A profitable give and take between the government departments and the munitions makers is customary.

As a result of the close relationship shown to exist between governments and the private munitions industry, it would appear that in some cases armament firms have come to be regarded as semi-official agencies of the state. It was implied, though not definitely affirmed, that the duPont Company may sometimes serve as an agency of the War and Navy Departments. Because of duPont's wide international connections and its technical knowledge of chemical developments throughout the world, this Company is in a position to serve as informant to the military and naval intelligence services. In another connection it appeared that the duPont Company was used by the United States government as an instrument to enforce its recognition policy. The implication was clear that this Company, and possibly other great armament firms, by virtue of their ability to sell or withhold munitions, may be the decisive factor in maintaining or overthrowing a foreign government.[28]

But while the companies and the government like to feature the idea that munitions companies are great patriotic servants of the United States, they could not conceal at the Nye hearings the other side of the story. For example, note this excerpt from a duPont office memorandum of 1923, discussing their European sales policy.

...Congress is too shortsighted to see the necessity for appropriating funds to keep private manufacturers of military materials in business. The Army and Navy would spend money for this purpose if they could get it; and because they cannot, they are doing all they possibly can do, and that is to help us make sales to other nations. *This is our country and not the country of Congress.*

We have an investment for the manufacture of military propellants and

explosives, and the results of four years of effort are beginning to bear fruit, by which means *a good return can be made on the investment*. . . .[29] (Emphasis mine.—*A. R.*)

Munitions manufacturers of various kinds, shipbuilding companies and airplane manufacturers have carried on active lobbying to improve their business by increasing the armed forces of the United States. They have also done their part in the great waves of propaganda directed toward that end.*

Since the United States is a republic with a broad popular suffrage the capitalist interests and the political machines with which they are firmly interlaced have found it best to maintain an appearance of serving the masses of the population. Lobbying and other forms of direct pressure on lawmakers and officials are therefore supplemented by systematic propaganda. With the government increasingly servile to Wall Street domination and the sharpening of the class line between exploited workers and the capitalists, propaganda has played a more and more important role in holding the voters within the old parties and keeping the masses docile citizens of a capitalist country.**

Every channel of social thought is deliberately used for the support of the existing order, including public schools, state universities, endowed colleges and universities, newspapers and magazines, movies and radios. Such "impartial" organizations as the National Bureau of Economic Research and the Brookings Institution are propaganda bodies in that their studies assume the maintenance of capitalism. While trade organizations, National Association of Manufacturers, national and state chambers of commerce and similar bodies are supplementing their lobbying work with extensive and insidious propaganda on special questions of policy, the broader cultural apparatus is trying to guide the basic mind-set of the masses.

The substance of capitalist propaganda is of wide variety. At one extreme is the Hearst press which carries on a demagogic drive on behalf of finance capital against the labor movement. At the other extreme are the "liberal" studies and government reports which uncover some important facts about the situation in the United States but carefully avoid any questioning of the capitalist basis of society. Between these extremes is the great bulk of the material fed out by capitalist concerns and organizations to edify and amuse the population. To distract attention from broad social and economic trends and to keep the workers and petty bourgeoisie from fruitful pondering on the causes of their sufferings and

* A duPont man was assigned to prepare an article on national defense for publication over the signature of the Chief of Ordnance of the U. S. Army. ("Nye Committee" hearings, pp. 2692 and 2694.)

** An interesting economic analysis of propaganda is found in the essay which introduces *Propaganda and Promotional Activities: An Annotated Bibliography* by Lasswell, Casey and Smith.

on the true significance of government policies, the movies, radio, magazines, tabloids, and novels focus their thoughts on sex and on petty bourgeois rivalries and aspirations. Misrepresentation of labor struggles is practically universal outside of the labor, liberal and radical press.

The American Newspaper Publishers Association sent its members on September 7, 1934, a confidential bulletin advising them to be more careful in their use of certain words. Striking workers, it said, should never be referred to as workers but only as strikers. "The spokesmen for the strikers" were "spokesmen and leaders of a group who had quit being workers and were not at the moment 'labor.'" Scabs on the other hand should be called "workers." [80]

*Editor and Publisher*, in its issue of July 28, 1934, gave almost a full page to an article on the San Francisco strike under spreading headlines. "DAILIES HELPED BREAK GENERAL STRIKE: San Francisco Publishers' Council Formed to Hit at Radical Elements Affecting Community—Swung Public Opinion and Helped Convince Conservatives to Resign from Strike Board."

*Black Fury*, a Warner picture distorting the mine workers' situation was praised by the *Wall Street Journal* (April 13, 1935) as "a worthy and entertaining screen drama . . . if trouble-makers can be scotched by the showing of such pictures as *Black Fury*, that is a worthy achievement in itself."

Part of the stock in trade of movies and cheap fiction is the ridiculing of Negroes, foreign-born workers and radicals—ridicule that is useful in dividing the working class and slowing down the growth of militant solidarity. Other general propaganda slants during the crisis have reflected important trends in capitalist policy. So we have witnessed a succession of pictures glorifying the armed forces, the federal secret service and vigilantes. We find the newspapers repeating gross understatements of the extent of unemployment and implying that, after all, the jobless who really want to work are few and easily provided for. We see a succession of best-selling books playing up the sufferings of counter-revolutionaries under the Soviet government and constant publicity for the few Russian émigrés of the old regime.

Much of this general propaganda is not personally guided by the finance capitalists themselves. But they have a strong indirect influence. We shall see how the motion picture and radio broadcasting companies are tied in with strong financial groups. Newspapers and magazines are great business enterprises, depending on the commercial banks for credit and receiving more than two-thirds of their total income from advertising. Public school boards are frankly a part of the political machine. Every college and university and successful private preparatory school has its own group, large or small, of wealthy donors and trustees. Sometimes these men admit the function of "higher education." So Silas H. Strawn, a Chicago lawyer tied in with Morgan companies and former president of the American Bar Association, stated at the 1935 commencement of Middlebury College (Vermont):

"I believe that Nazism, fascism, socialism and communism and all other forms of governmental schemes and economic vagaries are proper subjects for study in our schools, but that these subjects should be taught by teachers who are sufficiently wise and experienced to know their fallacies." He denounced those who attack the capitalist system while on the payroll of a university supported by "those whose industry and frugality have enabled them to make an endowment.[31]

Repeatedly it has occurred that school and college instructors who openly showed their sympathy with workers on strike or dared to write for radical publications were dropped from their jobs.

Sometimes direct guidance is offered by the financial powers on questions of immediate policy. For example, a newspaper man who must remain nameless was night editor of a New York paper when the Bank of United States was approaching collapse.* He states:

I received a call from J. P. Morgan & Co., advising to hold out one story dealing with the Bank of United States from first editions, and print the story in an abbreviated manner in an inconspicuous place in later city editions. When I refused to follow this order he called my publisher. On the following morning all papers treated story exactly as J. P. Morgan & Co. desired. This is not exceptional. There are other illustrations.

## *Morgan and Government*

That the Morgan firm has had a considerable part, both direct and indirect, in the shaping of government policy and the molding of popular thought, is fairly obvious. They have been and are such a strong power in railroads and electric utilities and in steel, shipbuilding and aviation that they cannot escape responsibility for the special lobbying and propaganda that these industries have carried on. They are closely allied with the duPont interests. They are personally represented by several partners in the New York State Chamber of Commerce of which Junius S. Morgan, junior, is treasurer. They "do their part" as "public-spirited" trustees and committeemen in churches, educational institutions, and other organizations. Thomas W. Lamont was for years (and a Morgan lieutenant has now succeeded him as) a director of the Crowell Publishing Co. (*Colliers, The American Magazine, Woman's Home Companion, The Country Home*). We shall see the Morgan role in motion pictures and in radio broadcasting.

New York City finances have been for years notoriously controlled by the bankers, under Morgan and Rockefeller leadership. These rulers are directly responsible for dictating city wage cuts and sales tax while they expect the tax assessors to continue the low tax valuations on utility properties and other "important" real estate holdings, thereby depriving the city treasury of revenue.

The important political role played by the Morgan firm in Europe after the World War will be shown in a later chapter. But we may

note the interesting fact that the Morgan partners had an advance confidential copy of the Versailles Treaty.[82]

Here we can take up only two special points. First, the general attitude and relation of the elder J. P. Morgan and of the firm to the government. Second, the role played by the firm in helping to swing the United States into the World War.

That the elder Morgan was an invisible ruler—above the government—was suggested by the most conservative New York papers at the time of his death.

He was an adviser of presidents as to their policy. Secretaries of the Treasury and mayors of cities came to him for assistance. Crowned heads conferred with him and the Pope at Rome claimed him as a counsellor in the pecuniary affairs of his Church.[83]

In the crisis of 1907, George B. Cortelyou, then Secretary of the Treasury (and later president of the billion-dollar Consolidated Gas Co. of New York) came to New York "to deposit government funds where they would most aid in holding up the tottering financial structure, recognized his [Morgan's] leadership and acted on his advice in every particular." [84]

When the Senate Committee sent to investigate the Morgan part in the U. S. Treasury bond issue of 1895 asked about the profits which the firm had made from the transaction, J. P. Morgan replied:

That is a matter, gentlemen, which concerns me and my house and which has nothing whatever to do with the Treasury of the United States or with any officer of it.[85]

In 1912 when the House Committee on Banking and Currency (Pujo Committee) began its investigation of the "money trust," the bankers, under Morgan leadership, refused much of the information desired. The actual operations of the Morgan firm and the chief commercial banks were not uncovered. Twenty-one years later (1933), the present J. P. Morgan and his partners made a great show of coöperating with the Senate committee investigating stock exchange practices. But while they made public a mass of material, including certain of the data which had been refused in the Pujo investigation, their actual operations were still most incompletely revealed. No total of the firm's profits could be derived. Extent of market manipulation was concealed. And beyond a list of directorships and names of favored executives on the "preferred lists" no data on extent of industrial control came to light.

On the personal relations of the Morgan firm to the government before the United States declared war against Germany documentary evidence is still lacking. When the special Senate committee investigating the munitions industry (Nye Committee) tried in April, 1935, to open the files of the Morgan firm and the Morgan-controlled Guaranty Trust Company for data on their relations with the British and French governments before April, 1917, the bankers made no direct refusal. The committee

gained access to the files. But indirect pressure was immediately brought through the British and French governments themselves and their ambassadors in Washington. Secretary Hull of the State Department convinced the Nye Committee that the British should be consulted before making any sensational revelations.[86] Up to December, 1935, nothing had been made public.*

Certain important facts are, however, clear beyond question. The Morgan firm had affiliates in London and Paris. When the European powers went to war in August, 1914, Morgan interests were immediately lined up with the Allies against Germany.

> Those were the days when American citizens were being urged to remain neutral in action, in word, and even in thought. But our firm had never for one moment been neutral: we didn't know how to be. From the very start we did everything that we could to contribute to the cause of the Allies.[87]

Robert Bacon, former Morgan partner who had been Assistant Secretary of State under Theodore Roosevelt and American ambassador to France, went to Paris (unofficially) with the new ambassador Sharp (who was replacing Myron T. Herrick). According to the popular French history of the war by Gabriel Hanotaux, Bacon stated in Paris in September, 1914:

> In America there are 50,000 persons who understand the necessity for the United States to enter the war at once on the side of France. But there are 100 million Americans to whom this thought has not occurred. It is our duty to see that those figures are reversed and that the 50,000 become 100 million. We shall achieve this.[88]

In becoming fiscal agent for the Allied governments and setting up a purchasing office for Allied war supplies, the Morgan firm also sheltered the chief British agents doing secret propaganda work in the United States. Sir William Wiseman, special agent attached to the British purchasing commission that operated at the Morgan headquarters, became a close friend of Colonel House, the constant and most intimate adviser of President Wilson.

Robert Bacon was a charter member of the National Security League organized in December, 1914, and J. P. Morgan, Elbert H. Gary, H. C. Frick and George W. Perkins of Morgan's U. S. Steel Corp. were early and large contributors. According to C. Hartley Grattan the preparedness agitation for which this league was organized was "integrally a part of

* Senate munitions hearings were resumed in January, 1936, after this book was in type. Opening sessions have given wide publicity to facts already clear from other sources and summarized in this section. They have also revealed that Morgan partners and officials of the Morgan-dominated New York Federal Reserve Bank were in confidential touch with McAdoo and Lansing on policy concerning war loans while at the same time Morgan partners were keeping British officials informed on these matters.

the effort to put the United States into the war."[39] Most of the large supporters were Republicans and Grattan credits the astute politician J. P. Tumulty (secretary to President Wilson) with helping to bring his Democratic president over to the side of preparedness in order to safeguard Wilson's political future. However this may really have been accomplished, Wilson's conversion to preparedness marked his acceptance of the Wall Street program.

In September, 1914, Morgan had written the President in opposition to some matter then pending and received the following reply:

> Your letter of September fourth, though unanswered, has by no means been overlooked. I have read it with the closest attention.
>
> I am sincerely sorry that you should be so blue about the situation. I believe that being blue is just the wrong thing, if you will permit me to say so. It is a situation which requires nothing more, in my judgement, than courage and the kind of intelligence which our bankers and men of affairs have shown themselves equal to applying to any circumstances that have yet arisen, and my judgement differs radically with yours with regard to the pending legislation.
>
> I need not tell you that I value your frank letters, not only for information, but also because I sincerely want to consider the judgement of men in the midst of affairs and whose judgements are based upon actual contact with business.[40]

Ray Stannard Baker, who gives this letter in the 1914-1915 volume of *Woodrow Wilson, Life and Letters,* makes no reference to later direct communications between the White House and 23 Wall Street up to the end of 1915. When later volumes appear they may throw additional light on the relations between Wilson and the Morgan firm. As yet there seems to be no published record of direct pressure brought by the Morgan partners to hasten a declaration of war. But these enthusiastically pro-Ally bankers were promoting a situation which tied the United States to the Allied cause.

Through 1915 and 1916 the economic interests of American bankers (always under the leadership of Morgan) and American corporations (many of them Morgan controlled) had become more and more deeply involved with the victory of the Allies. Popular feeling, meanwhile, was being warmed up by lying propaganda against the Germans, and the industrial boom gave an illusion of mass prosperity. But toward the end of 1916 Allied resources approached exhaustion. To have the Allied credit collapse and the war end without decisive "victory" over Germany would have cut short the high profits from war production and would have brought immediate losses to the bankers and other capitalists who had invested more than $1.5 billions in Allied bonds. (See also Chapter XX, p.278.)

These factors were doubtless placed urgently before the President. Secretary of the Treasury McAdoo had been in 1915 "under urgent pressure from banking and business interests." Lansing (who succeeded the genuinely neutral Bryan as Secretary of State) had joined with McAdoo

in persuading the President to give formal approval of the first large British war loan floated in this country by Morgan and a banking syndicate in 1915. Wiseman, as we noted, had the ear of the strongly pro-Ally Colonel House. And other British co-workers with the Morgan group in London may well have inspired the long cable of March 5, 1917, from Ambassador Page to President Wilson. This was omitted in the compilation of Page's *Life and Letters* and was made public by the Nye Committee on December 14, 1934. We can quote it only in part:

> The inquiries which I have made here about financial conditions disclose an international situation which is most alarming to the financial and industrial outlook of the United States.... The pressure of this approaching crisis, I am certain, has gone beyond the ability of the Morgan financial agency for the British and French governments.... It is not improbable that the only way of maintaining our present preëminent trade position and averting a panic is by declaring war on Germany.[41]

When the United States declared war on Germany, the desires of the Morgan firm were realized.

## *The Government, a Class Instrument*

This exposition is far from complete and much obviously relevant evidence on the control of government has of necessity been omitted. But we believe it is unnecessary further to labor the points that the government of the United States has been consistently the servant of the capitalist class against the working class, and that the forces of finance capital hold political sway to the exclusion of the petty bourgeois interests.

The pattern of political development in the United States has followed with perfect consistency the lines set forth by Marx, Engels and Lenin in their theoretical analysis of the capitalist state. Note, for example, the classic statement of Engels with which Lenin opens his argument in *State and Revolution.*

> The state "is a product of society at a certain stage of development; it is the admission that this society has become entangled in an insoluble contradiction with itself, that it is cleft into irreconcilable antagonisms which it is powerless to dispel. But in order that these antagonisms, classes with conflicting economic interests, may not consume themselves and society in sterile struggle, a power apparently standing above society becomes necessary, whose purpose is to moderate the conflict and keep it within the bounds of 'order'; and this power arising out of society, but placing itself above it, and increasingly separating itself from it, is the state."[42]

And, further, Engels says:

> As the state arose out of the need to hold class antagonisms in check; but as it, at the same time, arose in the midst of the conflict of these classes, it is, as a rule, the state of the most powerful, economically dominant class, which by virtue thereof becomes also the dominant class politically, and thus acquires new means of holding down and exploiting the oppressed class.[43]

Their analysis recognizes a difference between "democracies" and absolute monarchies. Lenin, for example:

> In capitalist society, under the conditions most favorable to its development, we have more or less complete democracy in the democratic republic. But this democracy is always bound by the narrow framework of capitalist exploitation, and consequently always remains, in reality, a democracy for the minority, only for the possessing classes, only for the rich....
>
> Marx splendidly grasped this *essence* of capitalist democracy, when... he said that the oppressed were allowed, once every few years, to decide which particular representatives of the oppressing class should be in parliament to represent and repress them! [44]

With the sharpening of class conflict since the World War, the form of capitalist states has been shifting from a restricted democracy and covered dictatorship to an open capitalist dictatorship over the working class. At the same time, the power of "the state" has been immensely magnified.

That the financial powers regard the government as their own servant is illustrated by editorial comments in the *Wall Street Journal.* So, for example, after the banking holiday in March, 1933, and the first steps in Roosevelt's emergency program, the editor remarked on the steadiness of the stock market after "the extraordinary political actions of the past fortnight. It [the stock market] is the touchstone of their usefulness before which all prior reasoning and opinion, of whatever high authority, fade into comparative insignificance." [45] A year later, it displayed clearly the other side of the same idea. "Nobody blames the American Federation of Labor for attempting by all legitimate means to extend its membership and power. But that the machinery of government should be used to effect such results is quite a different matter." [46]

The crisis has brought in the United States the beginnings of a new alignment of political forces within the capitalist class. Many of the finance capitalists who supported—and benefited from—Roosevelt policies in the emergency of 1933 have now turned to attack his "liberal" demagogy. Morgan interests, duPont and others have set up the American Liberty League as a rallying point for the most openly reactionary elements in both the Democratic and Republican parties. The "liberty" for which they are campaigning is liberty to smash labor unions, repeal social legislation, reduce taxation on profits and capitalist incomes, and generally run their corporations without even nominal interference from the government. Roosevelt has taken up again the cry of driving the money changers from the temple. His Tammany aide, Farley, is for the moment shouting about "banker brigands" and hoping to rally to the Roosevelt banner voters from both old parties who oppose Wall Street domination. The fight is on between two methods of saving capitalism: reaction or "liberal" demagogy.

At the same time a new political force which promises to become a serious factor in national politics is gathering strength to the Left of

Roosevelt. New labor and farmer-labor parties are beginning to unite Socialists, Communists, labor unions, poor and middle farmers and considerable sections of the middle class against both the demagogy and the reaction of the old parties. The rapid building of such a "People's Front" in the United States is urgently necessary as the only dependable bulwark against the threat of open dictatorship by finance capital and the complete loss of democratic rights.

## CHAPTER IX

# THE WIDENING GAP

STATISTICAL estimates of the increasing concentration of wealth and the widening gap between rich and poor, exploiters and exploited, are scarcely necessary. The trend has been steady and obvious. In 1892, when a "millionaire" was a man possessing a million dollars of capital, the *New York Tribune* showed 4,047 American fortunes in this group.[1] The income of $50,000 or more—which roughly represents current return on a fortune of a million dollars or larger—was admitted by 7,509 persons in 1914 and by 38,889 persons in 1929 in their federal income-tax returns. As big fortunes increased a new definition of "millionaire" became common. Those admitting *million-dollar net incomes* numbered 60 in 1914 (the first year of the federal income tax) and 513 in 1929 at the peak of post-war "prosperity."*

On actual distribution of wealth in recent years the most reliable estimate is still that of the Federal Trade Commission in its Report on *National Wealth and Income* published in 1926. This estimate, based on estate data, showed that the richest 1% of the population owned at least 59% of the wealth; the petty capitalists (12% of the population) owned about 33% of the wealth; and the great mass of industrial workers, small farmers, and self-employing shopkeepers (or 87% of the population) owned about 8% of the wealth.

Increasing concentration of wealth was noted by Robert H. Jackson, counsel to the U. S. Bureau of Internal Revenue, in testimony before the Senate Finance Committee in August, 1935. He said:

> It is often asserted that large wealth is dissipated in three generations.... It was doubtless once true that all a grandfather saved from the fruits of his labor [Mr. Jackson is not a Marxist!] could be spent by a grandson.

* The fact that million-dollar net incomes admitted in federal income tax returns for 1932 were only 20 is in no sense a symptom of reversal in the trend toward concentration. Total national income had fallen sharply after 1929. Profits from rising stock prices which played an important part in the very high incomes of the boom were entirely wiped out. Instead, the sharp and almost continuous fall in stock prices from the peak of 1929 to the lowest point in 1932 gave the big capitalists an exceptional opportunity to cancel out their large incomes from other sources with "losses" in capital values. We have noted, for example, that none of the Morgan partners had *any* "net income" from the viewpoint of federal tax returns in 1931 and 1932.

It is probably true to-day of very moderate fortunes. It is not true of large invested fortunes under present conditions. They not only perpetuate themselves, they grow.

This is because they are now so large. A riotous-living heir to one of our larger fortunes would exhaust himself before he could exhaust the income alone of the estate. Furthermore, such estates are largely perpetuated in trusts, and every legal and economic obstacle to their dissipation is employed....

Most of the large estates as at present managed, we find, not only perpetuate themselves but are larger as they pass from generation to generation....

As pointed out earlier, under the prevailing distribution of income, even in the most prosperous times a large proportion of the population lives at or even below the level recognized by Congress as necessary for adequate subsistence.

In a period of depression this same proportion of the population is pressed farther down the scale of living, while those in higher income groups, even though they suffer some reduction of income, are in a position to use their vast resources to maintain their accustomed very high standards of living.[2]

## *Distribution of Income*

Percentages of income distribution are never the same as the distribution of wealth, since total national income includes wages and salaries. So while the richest 1% of the population receives probably more than its 59% of the income derived from the ownership of land and capital, this topmost group has to be content with much less than 59% of the total national income.

The best study of income distribution in the United States was published by the Brookings Institution in 1934 and applies to the year 1929. It estimates that the population was made up of (roughly) 36,500,000 "spending units," including about nine million unattached individuals and about 27,500,000 families of two or more persons. Of the unattached persons, 18% received less than $500 a year and about half lived on something more than $500 and less than $1,500. Among the families, the distribution is slightly different because allowance is made for the presence of more than one wage-earner in many families. To quote the report:

Nearly 6 million families, or more than 21 per cent of the total, had incomes less than $1,000.

About 12 million families, or more than 42 per cent, had incomes less than $1,500.

Nearly 20 million families, or 71 per cent, had incomes less than $2,500.

Only a little over 2 million families, or 8 per cent, had incomes in excess of $5,000.

About 600,000 families, or 2.3 per cent, had incomes in excess of $10,000.

... The 11,653,000 families with incomes of less than $1,500 received a total of about 10 billion dollars. At the other extreme, the 36,000 families having incomes in excess of $75,000 possessed an aggregate income of 9.8

billion dollars. Thus it appears that 0.1 per cent of the families at the top received practically as much as 42 per cent of the families at the bottom of the scale.[3]

Again, in the words of the report: "At 1929 prices, a family income of $2,000 may perhaps be regarded as sufficient to supply only basic necessities." About 11,600,000 non-farm families (about 54% of the total in this group) and about 4,800,000 farm families (about 82% of the families in the farm group) had less than $2,000 a year.[4]

The income gap between capitalists and workers has further widened during the crisis and depression. A special report on *National Income, 1929-32*, prepared by the Department of Commerce and the National Bureau of Economic Research, showed that during those years total wages paid in certain basic industries dropped more sharply than any other item in the national income.* Interest payments fell by only 3%; salaries in the selected basic industries and returns to independent business men (all industries) dropped by 40%; dividends to stockholders and rents fell by 55%; but wage totals in the selected basic industries fell by more than 60%.

Since 1932 the Roosevelt "New Deal" has been restoring the incomes of the rich without a corresponding benefit to the workers or to the petty capitalists. In 1933, the total number having enough income to require the filing of federal income tax returns declined by 3% below the number in the previous year. At the same time the number of personal incomes above $25,000 a year had increased, and the admitted million-dollar net incomes which had dropped to 20 in 1932 were boosted to 50.[5] More corporations reported net income instead of deficit. Payrolls in manufacturing and mining are said to have moved slightly upward, but those in other industries ** are admitted in government estimates to have dropped in 1933 even below the low figure of 1932. Of course payrolls in many industries have risen since 1933 but progress has been unevenly distributed and irregular. Only in light manufacturing ("non-durable goods") does the index of the U. S. Bureau of Labor Statistics show 1935 figures equaling or even approaching the averages for 1931.

For the 12-year period from 1923-35, the general trend of dividend and interest payments as compared with the trend of "labor income" (including salaries) was analyzed by the Research and Planning Division of the National Recovery Administration.[6]

From 1925 to 1929 labor income rose twenty per cent, while dividends and interest rose sixty-five per cent. But what had gone up highest did not come down first nor most. In fact labor income began its precipitate decline

* These industries were mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation. They employed two-fifths of all wage-earners in 1929.

** Railroads, telephone and telegraph, electric light and power, buses and electric railroads, trade, hotels, laundries, and dyeing and cleaning establishments.

in 1929 and in 1933 reached a level sixty-five per cent of that in the years 1923 to 1925. Dividends and interest did not begin to go down until 1930 and in 1933 reached a level still ninety-three per cent of that ten years previous.

This indicates, according to the report, "that capital is spared from bearing a proportionate share of the risks of business ups and downs, for while laborers participated fully in the decline in national income, those receiving dividends and interest found their incomes not only increasing faster than national income during the boom but declining less than national income during the depression."

All statements on profits agree that gains of corporations under the "New Deal" have been substantial. For example, the *Wall Street Journal* showed an increase of 49% from 1933 to 1934 in the average net profits of 350 large industrial corporations.[7] The National City Bank in its April, 1935, bulletin, showed an average increase of 32% in net profits of 1,935 corporations, including railroads, utilities, and financial companies. Profits of large industrial corporations continued to rise in 1935 above the 1934 figures. For example, a National City Bank tabulation in its November, 1935, bulletin covering 220 companies for the first nine months of both years showed an average increase of 26% in net profits.

Prices on the stock exchange have risen irregularly but markedly, and the increased trading has been a source of increasing income to the insiders. The preliminary income tax returns for 1933 showed substantial addition from such capital deals in the more-than-$25,000 income groups.

At the same time, mass unemployment continues and the 22,000,000 persons who have been on relief * are being kept alive at a level which sets a new record of poverty and meager subsistence in the United States. Edward Corsi, Deputy Commissioner of Public Welfare in New York City, stated in a public address in November, 1935, that "we are actually building up a society with one-fifth of the population as a submerged class, living more and more apart as though unrelated at all with the others.[8]

## *Wages*

Contrasts of wealth and poverty are due to the basic class relationship between employers and wage-earners. For, we repeat again, the worker produces more value than he receives in wages, and the "surplus value" over and above his wages is appropriated by the capitalist class. It is the source of capitalist wealth and capitalist income.

The amount of surplus value available for the capitalists and their chief lieutenants depends on three chief variable elements: first, total production that can be wrung from the workers; second, the amount which has to be paid back to the workers in wages; and third, the ability to "realize" the product by exchanging it for money or credit. No pro-

* Estimate from American Federation of Labor in its *Monthly Survey of Business*, April, 1935, including those on public and private relief.

duction of commodities is attempted or permitted by capitalist industry if there is no hope of a market for the goods produced.

We discussed in Chapter I the reasons for the relatively high wage level for large sections of the American working class during the period of expanding capitalism. Until the present crisis and depression this tradition was maintained, and the workers did average, on the whole, a higher cash wage and a higher purchasing power than the workers in other countries. But even at the height of the great post-war "prosperity" boom, wages in the United States as a whole averaged barely $25 a week. And this average concealed a sharp difference in wages between the small top minority who actually did earn (when employed) some $40 or even more a week, and the unskilled and semi-skilled masses whose wages trailed down to a starvation level.

This contrast has been present within most American industries. It has been fostered and sharpened by the high officials of the American Federation of Labor and of the railroad brotherhoods whose indifference to the unorganized semi-skilled and unskilled workers has amounted to a betrayal of the working class. Take the railways as an example. Among the 1,560,000 wage-earners on steam railways in 1929, the train crews and a small minority of the skilled workers in the shops averaged considerably more than $2,000 a year. But such workers were outnumbered by men who had less than $1,200 a year, and nearly one-fourth of all the railway workers averaged less than $20 a week.* By 1933, the average earnings of all railway employees had decreased at least 24% below the 1929 level. Nearly one-fifth of those employed in 1933 earned less than $600 and about one-half received less than $1,200.[9] In compiling these 1933 figures, Otto S. Beyer of the labor relations section under the Federal Coördinator of Transportation stated:

> It was found to be generally true that employees in the lower paid occupations suffered a greater proportionate decrease in their actual earnings during the depression than employees in the higher paid occupations.
>
> While the earnings of maintenance employees were from one-quarter to one-third less in 1933 than in 1929, the earnings of executives declined only about 13%.[10]

*No industry and no section of the country paid an average wage before the crisis that approached $2,000 a year.* For factory workers as a whole the average yearly earnings in 1929 were about $1,300, but at least 11% of them were in industries which showed an average of less than $900 a year.** By 1933, the average for manufacturing as a whole had

* In this low wage group of railroad workers before the crisis were found section hands, common laborers in the repair shops, crossing flagmen, janitors and cleaners, messengers, switchboard operators, camp cooks and kitchen helpers, and deck hands on steamers owned by railroads.

** These included cotton textiles, canning, confectionery and most of the tobacco products; also work clothing, in which wage-earners are up against the competition of convict labor in American prisons.

dropped to less than $900 a year, and three out of ten employed in 1929 were out of the factories entirely.

So-called "common labor" received an average rate of 43.7 cents an hour in July, 1929, with a considerable variation according to industry and locality. New England, the East North Central states (including Michigan), and the Pacific states reported averages of about 48 cents an hour. At the other extreme, in the East South Central states (including Alabama and Mississippi) the average was only about 27 cents an hour. Four years later the nation-wide average as officially reported by the U. S. Bureau of Labor Statistics had dropped to 35.1 cents an hour, with irregular declines in the several sections of the country.

At the lowest end of the scale are the farm workers. In July, 1929, the average daily pay for those who did not receive free board as part of their wages ranged from $3.85 reported for three northern states to $1.20 in South Carolina. Agricultural work is of course highly seasonal and day rates do not mean that earnings averaged that amount for any considerable number of days. By July, 1933, these averages had fallen to $1.96 for New England and less than 90 cents throughout the South. "Recovery" had pulled them up to a $2.31 average in New England in July, 1935, but they were still below a dollar a day in seven southern states. South Carolina is the lowest, with a 70-cent average.

Of course back of these official averages have always been groups of specially exploited workers and such groups have markedly increased since 1929. For example, in the spring of 1935, labor organizers reported that workers on truck farms were earning only from 5 cents to 22 cents an hour. In the Texas onion fields, the piece rate for gathering a bushel of onions in June, 1935, was 5 cents. By working from "kin to kain't" (can see to can't see) the workers achieved an average of $1.50 a day.[11] Reports have also come from various sources and various localities of farm workers ready to take jobs for room and board without any cash.

During the period of the National Industrial Recovery Act, the lowest sweatshop rates in industry were supposed to be raised to a minimum of $10.50, $11 and $12 for a full-time week, but there were absolutely no guarantees that the workers would get regular work even for one week at a time. In general, while hourly rates were for many workers higher than pre-NRA rates, earnings were often lower because of part-time employment. A summary of the NRA period by Bernard Kilgore in the *Wall Street Journal* pointed out this fact:

> . . . it is worth remembering that a large number of workers seem to be extraordinarily disappointed with the NRA and right there is the big reason why. The slice in their working week just about cancelled out the much-advertised pay boosts they were getting.[12]

Immediately after the end of the National Industrial Recovery Act under the Supreme Court decision of May 27, 1935, a new wave of wage cuts and lengthening of hours began. According to reports to the NRA in

July, 1935, wages in New England boot and shoe industry had already been cut by 15% and hours lengthened by 20%. Several extreme cases were reported of a wage of $2 a week for forty hours work—a return to the 1933 sweatshop level. The neckwear industry reported wage reductions of between 25% and 70%, with most of them hovering around 40%. Rates of only 8 to 10 cents an hour for "common labor" were reported from Georgia.[18]

Practically, of course, the low scale of pay set in May, 1935, by the federal administration for work relief has exerted a definite downward pull on wage scales in private employment. Unskilled workers were to receive from $19 to $55 *a month*, according to the locality, and skilled manual workers from $35 to $85 *a month*. Professional and technical workers were rated slightly higher, with a range of $39 to $94 *a month*. This means a weekly wage ranging from $4.39 for unskilled workers in small southern communities to $19.33 for skilled manual workers and $21.71 for technicians in large northern cities.

Comparison of wage trends since 1929 with the changes in the cost of living shows that since 1929 real wages of employed workers have been definitely reduced. These years fall into three short periods. Up to the spring of 1933 prices and the cost of living were falling but wages were cut more sharply than prices. Under the NRA, wage rates were somewhat increased for the lowest paid workers, but average earnings tended to fall while prices were deliberately boosted by government measures. With the scrapping of the National Industrial Recovery Act in May, 1935, wage rates were again tending downward, while prices and cost of living were maintained.

During the crisis and depression the capitalist class has used the enormous reserve of jobless workers as a means of pushing down the already low standard of living of unskilled workers and undermining the "American" standard of living of the top minority.

## *Increasing Exploitation*

Meantime, the workers' output per man-hour of labor has been sharply increased both during the post-war boom and since 1929. It has been pushed up by actual increase in productivity and by speeding-up and intensifying the workers' labor. Even during "prosperity" there was no proportionate increase in wages to the individual workers or to the working class as a whole.

This trend is clearly shown by figures from the National Industrial Conference Board. From 1923 to 1929, according to their estimate, the average manufacturing output per man-hour increased by 23%, the yearly output per worker increased by 21%, while total payrolls increased by 4%. Then from 1929 to 1933 the output per man-hour increased again, by another 24%; the output per worker, because of sharp decline in average working hours, fell by 3%; and total payrolls decreased by

56%.[14] In both periods, the hourly return to the wage worker bore no relation to his increased output per man-hour: from 1923 to 1929, the average hourly wage increased by 9%, against an hourly output that increased by 23%; from 1929 to 1933 the wage dropped by 14% while the output was again increased by 24%.*

From data given in the Census of Manufactures and other documents, Eugen Varga, director of the Institute of World Economy and Politics in Moscow, has made a rough estimate of the rate of exploitation (or rate of surplus value) in manufacturing industries in this country.

> We expressly emphasize that *this is merely a very rough attempt at an approximate determination of the rate of surplus value on the basis of inadequate data, doubtless deviating considerably from actual reality.* We can only say that this deviation tends towards too low a figure for the actual rate of surplus value.[15] (Emphasis in original.)

With this qualification, Varga gives the following figures showing the ratio which the value taken from the workers is to the wages paid to the workers. If the wages are represented in each year by 100, the amounts taken by the capitalist class are shown by the following figures:

| 1899 | 1909 | 1919 | 1921 | 1923 | 1925 | 1927 | 1929 | 1931 |
|---|---|---|---|---|---|---|---|---|
| 128 | 130 | 122 | 106 | 118 | 128 | 133 | 152 | 147 |

Varga points out that "the drop in the crisis year 1921—and to a slighter extent in the present crisis—*does not denote a diminution in the exploitation* of the *productive* workers, who create surplus value, but indicates a relatively higher proportion of wages paid to the unproductive, supervising, guard and office personnel, due to plants being operated at far below capacity during the crisis." (Emphasis in original.) **

How increased exploitation affects the workers on the job may be briefly illustrated by conditions in the shops of two great corporations: the Ford Motor Co. and General Electric Co.

* An estimate by Frederick C. Mills arrives at the same general trend for 1929 to 1933 but indicates an increase in hourly wage from February-March 1933 to January-February 1935 that roughly equals the increase in output per man-hour during those two years. Total payrolls, however, lagged behind the increase in gross income, even in the Mills estimate. See National Bureau of Economic Research, *Bulletin* No. 56, May 10, 1935.

** From these figures Varga concludes: "... the major fact deduced is that the 100 per cent rate of surplus value accepted by Marx (which was generally declared to be quite exaggerated) is exceeded in American industry. At the same time it must be emphasized again and again that this rate of surplus value is lower than it actually is, since commercial capital's share in profits, which is also produced in industry, is not expressed here."

Henry Ford has always had the widest kind of publicity for his supposed policy of paying "high wages" to his employees.* On May 21, 1935, came another announcement that the minimum wage of 126,000 Ford employees was to be raised to $6 a day. What the announcement did not state was that workers were to be stepped up to produce so much more in the same time that the total working force could be reduced. Ford workers describe how the scheme worked out in certain departments at the River Rouge plant.

> In foundry coreroom, Dept. 1, 56 men turned out 4,800 cores in eight hours and three shifts were employed before the increase. After the increase, they were speeded up to 5,400 cores in eight hours, and the midnight shift was laid off....
>
> In the foundry intake coreroom, Dept. 1, before the increase to $6, 15 men turned out 1,000 cores an hour; after getting the $6 they were speeded up to 1,600 cores an hour, the midnight shift being laid off....
>
> In foundry coreroom 540, crank shaft cores, men on each table before the increase turned out 17 cores a minute, three shifts working. With workers getting $6, men on each table have to turn out 20 a minute, an increase of 180 an hour, or 1,440 in eight hours. The midnight shift has been laid off, and two shifts are now turning out almost as much as the three shifts did before. *The Ford Motor Co. has more than made up for any increase in wages by reducing its total payroll. This is the usual occurrence whenever there is a general wage increase. It is a definite sign of a wholesale layoff.*[16] (My emphasis.—*A. R.*)

Owen D. Young, chairman of General Electric Co., is another big employer who has been praised in the press for his "progressive" wage policy. He has talked about the "cultural wage," with the statement that "no man is free who can provide only for physical needs." His associate, Gerard Swope, president of the company, has made similar remarks about higher wages that would "best arouse the interest and intelligence of workmen and thus increase efficiency and production." [17]

What these high-sounding utterances really amount to was shown conclusively in a series of articles by Budd L. McKillips in the railroad labor organizations' paper, *Labor*, in 1931.

In 1930, the company's figures showed 70 cents an hour as the average wage rate, but this rate included all salaried employees as well as wage workers. Just how much the average was pulled up by the high salaries of executives cannot be shown. But in 1932, Young and Swope themselves each received $73,294 [18] which works out to something more than $30 an

* Instead of paying higher wages than other automobile plants, Ford often pays lower wages for the same job. For example: Pattern makers at Ford's in May, 1935, were getting 62½ cents an hour, while in other auto plants, pattern makers were getting $1.25 to $1.50 an hour. Drill-press operators received $5 to $5.40 for an 8-hour day at Ford's but in other Detroit plants they receive $6.50 for a 7½-hour day. (*New Masses*, June 25, 1935.)

hour.* When the Federal Trade Commission (1933-34) was investigating salaries and other compensation paid to officers of corporations, General Electric was one of the four companies which made incomplete returns on the ground that such information should be confidential.

At the time of McKillips' investigation, before the main wage-cutting drive of the crisis and depression had set in, there were men on the G.E. payroll getting only $15 a week for full-time work; some girls in the Lynn plants were receiving only $12 a week; unskilled day labor was getting 32 cents an hour. While union machinists in the United States averaged 90 and 92 cents an hour, G.E.'s Schenectady plant paid machinists only 78 cents an hour, as a top rate.

By "changing the operation" or "retiming the job," the company had been cutting their labor costs since the World War. A certain job on an induction motor, for example, that paid $41 in 1921 paid only $19 in 1931. Another job, on direct current motors, had been cut from $16 to $4.

General Electric does not declare general wage reductions which would create the same grievance for a large number of men at the same time. Since most of the workers are on piece-rate wages, it is easy for the company to shift them downward in small groups. As one worker explained:

> And if a man kicks about his rate being cut he is told to speed up and he can make up the difference—just as though he wasn't already being driven almost beyond human endurance.

The speed-up plans have various names—group incentive bonus, Bedaux system, micro-motion and others—all modifications of the same idea of the stop-watch and time study. In one department of the Schenectady G.E. plant the investigator in 1931 found one speed-up supervisor and two foremen for every 30 workers.

Needless to say, the crisis and depression brought wage cuts, layoffs and a further intensification of labor, while the executives still received high salaries. Between 1929 and 1933 General Electric laid off over 46,000 workers, a drop of 52%. Total payrolls dropped by 66% and average annual earnings per employee fell by 28%, from $1,855 to $1,330. But note that this average (which includes the top salaries) means that considerably more than half the workers were even at the peak of prosperity below the $2,000 "minimum for health and decency." The "cultural wage" was reserved for a small minority of officials and bosses.

## *Luxury Is Built on Poverty*

As the wealth of the capitalists—both large and small—is piled up by their robbery of the working class, so luxury in a capitalist country is directly related to the poverty and misery of the masses. In the crisis and depression, while the total incomes of the wealthy have been reduced,

* Assuming 300 days of 8 hours each.

they are still maintaining their great estates and their expensive cars. They are traveling at will and enjoying the best medical care, *because* they have passed on the burden of the crisis to the working class.

For the 17,000,000 unemployed persons * (chiefly workers) and their uncounted dependents—a group making up at least one-fourth of the total population—corporations and financiers have assumed no responsibility. They have used every device to evade taxation. They have opposed unemployment insurance, except such fake schemes as make no provision for those who are now jobless and include future provision only for those workers who may be re-absorbed into industry. They sponsor charitable drives for totally inadequate sums and practically compel employed workers to contribute. For such public relief as seems necessary to prevent "disturbances," they arrange sales taxes to place the burden on the workers or they lend capital to the government on which of course they, the capitalists, receive interest.

The scale of relief has been so low that serious malnutrition has increased. And when workers on relief rolls refuse to take temporary work at very low wages they are hounded and denounced by the well-fed who are drawing a good income from some capitalist source—public or private.

But the crisis and depression have only intensified problems which in less spectacular form have burdened the most driven and exploited sections of the working class even during "prosperity." The sufferings of poverty have always been a reality for many American workers and their families. Paul H. Nystrom, of Columbia University, estimated that before the crisis, 1,000,000 persons in the United States were public charges; another 1,000,000 were "unemployable," that is, they had been broken in body and spirit by irregular work and totally inadequate wages, and at least 7,000,000 (including workers and their families) were living at a poverty level so low that the slightest emergency meant a choice between charity and literal starvation. Another 12,000,000 had only a "bare subsistence"; they might weather short spells of unemployment and minor emergencies but could build up no substantial savings. In other words, the beginning of the economic crisis in 1929 found more than one-sixth of the population chronically on the edge of destitution or already hopelessly submerged.[19]

What then of the future? Will the workers allow class robbery to continue? Will the great body of the middle class in the cities and the poor and middle farmers realize that they have much to gain and nothing to lose by joining forces with the workers against the financial rulers? We shall return in the last two chapters to consider the economic and political forces which are weakening the position of finance capital, but which will not lead to its collapse without aggressive united action by those whom finance capital oppresses.

* Estimates by Labor Research Association for November, 1932 and 1933, and by Alexander Hamilton Institute, spring of 1933.

Part Two

# CONTROL IN SELECTED INDUSTRIES

CHAPTER X

# DOMINANT OIL MONOPOLIES

OIL, copper, railroads, agriculture and other industries sketched in the following chapters serve to illustrate different stages of development and various phases of financial control. At least four of the industries presented play a peculiarly important role in modern warfare. And war preparedness is, of course, an increasingly important factor in industrial activity. Since the industries show different aspects of monopoly forces, the sketches do not attempt to be uniform in treatment. But all are approached from the angle of financial control.

This industrial section closes with a brief discussion (in Chapter XIX) of the confused interplay of monopoly and competition.

All except the railroads are open-shop industries and yet in all, without exception, the class forces have faced each other in hard-fought strikes. Details of struggle and of the present efforts toward working-class organization industry by industry, vitally important though they are, lie outside the scope of this book. But in the railroad chapter we discuss briefly the status of the workers because here we have the outstanding American example of monopolies developed to the point where government is actively involved to protect returns on capital and to prevent such "disturbances" as strikes.

## *Rockefeller Hegemony in Oil*

The oil industry is in the stage of highly developed world monopoly. Two great rival groups dominate the industry throughout the capitalist world: the British, compactly organized in Royal Dutch-Shell and the government-controlled Anglo-Persian, and the American, loosely organized in competing monopolies under the leadership of Standard Oil.

Through their large minority holdings the Rockefeller interests still have the power to control the principal companies into which the former Standard Oil Co. was broken up in 1911; and the leading Standard companies still dominate the American oil industry within the United States and in foreign countries. The Mellon family owns a majority of Gulf Oil Corp. and the Morgan firm through banking activities and directorships is dominant in Continental Oil Co. But even these strong groups are secondary to the great Rockefeller companies.

Standard Oil companies have grown enormously in wealth and output since 1911, but the industry as a whole has grown still more. Standard's share in the refining and marketing of oil products in the United States has declined from around 85% to something less than 50% of the total. Even before 1911 the Standard's complete singlehanded monopoly had been broken by the rapid growth of Gulf Oil Corp., when a gusher in the new Spindletop (Texas) field was backed with the Mellon millions. Also the British oil king, now Sir Henri Deterding, had before the war attacked his world rivals on their home territory. In spite of Rockefeller supremacy, these and other independent companies found a unique opportunity for growth with the expanding markets of the war years and the automobile age, and the rich new oil discoveries in widely scattered American fields.

To-day there are operating in the United States twenty corporations classified as "large and medium-sized integrated units of oil industry,"—integrated because their properties include wells, pipe lines, refineries, and retail outlets.[1] Nine of these are of the old Standard group. Six include a Rockefeller minority interest, ranging from 7% in Atlantic Refining Co. to 24% in Ohio Oil Co.[2] These figures include holdings of Rockefeller-endowed institutions. Other sections of the old Standard group are included in Consolidated Oil Corp. (Sinclair-Blair-Rockefeller combine); in Continental Oil Co. (Morgan); and in Tide Water Associated Oil Co. Standard of New Jersey held a majority interest in outstanding stock of Skelly Oil Co. and a 20% interest in Tide Water Associated but in January, 1935, these were transferred to a holding company (Mission Corp.) and shortly afterwards the shares of the holding company were distributed among the stockholders of Standard of New Jersey.

The strongest American "independents" outside of the Standard group are Gulf Oil Corp. (Mellon), and Texas Corp. which is tied in with Continental Illinois Bank & Trust Co. of Chicago, with the Fisher Brothers of General Motors, and with Central Hanover Bank and Trust Co. of New York. Shell Union Oil Corp. is the American branch of the British oil trust. Cities Service Co. (which combines large utility interests with an integrated set up in the oil industry) is dominated by Henry L. Doherty, a dashing promoter who learned his methods as an executive of Morgan's Electric Bond & Share Co. in its earlier years. Pure Oil Co., one of the smaller integrated independents with *only* about $200,000,000 of assets, has remained under the control of the Dawes family of Chicago bankers, who dominate the board although they own less than 10% of the voting stock. A smaller interest in Pure Oil Co. is held by the Pew family who control the Sun Oil Co.

The many Standard companies carry on a certain measure of competition among themselves. They have broken over the strict territorial limits within the United States which remained from the old compact Standard Oil organization. And in foreign affairs Standard of New Jersey joined Sir Henri Deterding and Royal Dutch in attacks on the Soviet power while Socony-Vacuum was buying Soviet oil. But it would be a serious error to conclude that Standard companies are competing with each other

in any true sense of the word, or that the New Jersey company and Socony-Vacuum are basically hostile to one another.

Evidence is abundant that the Rockefeller companies still follow the broad lines of a common plan. For example, Standard of New York and the other companies now reunited as Socony-Vacuum Oil Co., Inc., have taken almost no part in the development of foreign oil concessions while Standard of New Jersey has expanded aggressively in this field. Both have immense foreign distributing systems but these have respected each other's territory. They have not competed in foreign markets. In fact, the difference in current policy on Soviet oil is the logical outcome of their basic division of operations. Standard of New Jersey acquired in 1920 a large interest in the Nobel company whose Russian oil properties had already been nationalized by the Soviet government. Standard of New York meanwhile has a strong interest in buying oil from the nearest and best source for its Mediterranean and Near-Eastern markets. In 1933, Standard of New Jersey and Socony-Vacuum set up Standard-Vacuum as a joint subsidiary operating in the Far East from Japan to Australia to take over and coordinate the Far Eastern wells and refineries of the New Jersey company with the Far Eastern marketing system of the New York company.

Standard companies have taken other steps toward the rebuilding of the old structure. Standard of New Jersey purchased all the foreign properties of Standard of Indiana, giving in exchange not only cash but an important block of New Jersey stock. Standard of New Jersey has also taken over entirely or brought into joint operation all the foreign production of Atlantic Refining. This is of special interest since Atlantic Refining had taken the lead in apparently unregulated expansion beyond its original territory in the United States.

And the basic fact remains that the common Rockefeller interest could interfere actively if the present minor symptoms of competition among the Standard companies were seriously affecting their markets and their profits.

## *Rival Monopolies*

All the large oil companies carry on rival advertising campaigns. The Standard companies have retail outlets penetrating to a limited extent into one another's territory, while the integrated independents maintain sharp competition in the location of retail outlets and the variety of services offered by their controlled filling stations. But even such large corporations as Gulf Oil Corp., Texas Corp. and the American branch of the British oil trust have learned that they prosper best by avoiding any price-cutting competition with Standard companies.

A more subtle and pervasive sort of domination or control of price policies seems to have been continued by the Standard (i.e. by the branch operating in each region) by virtue of its being the most important com-

pany, even where competitors have been numerous in the field.... A "follow-the-leader policy" takes the place of the older, cruder, cutthroat competition and works just as effectively.... This docility of all the so-called independents in following the leader may be seen, on more careful scrutiny, to be the result of competitors' fear of cutthroat competition, more artfully and sparingly exercised than in the old days, united with the hope of reward in being allowed to live and obtain higher prices by acting with tacit if not explicit agreements.[3]

Or as a practical oil man put it in 1923:

If you start real competition—and by that I do not mean multiplying the opportunities we have to-day to buy stuff, but I mean competition that bases its price on cheaper delivery cost—you are up against a system of reprisals that rather deprive you of a desire to try the experiment more than once.[4]

Control of important patents is another element in the oil monopolies of the present day. Cracking patents, for example, were pooled by Standard of Indiana, Standard of New Jersey, and the Texas Corp. and then granted under license to perhaps a dozen other concerns.[5] All the large refiners have been allowed to participate in the company holding in the United States the German hydrogenation patents for producing oil from coal, but this patent company is controlled by Standard of New Jersey in alliance with the German chemical trust.

And many of the large non-Standard corporations independent of Rockefeller direct interest have been drawn by one or another Standard company into some kind of joint operation. A partial list of such joint operations published in Appendix H, p. 337, illustrates this intricate web of working connections. Many other similar links could be shown among the large independents without participation of a Standard company.

The inner compact group of Standard companies and the outer ring of integrated independents—about twenty corporations—constitute the great rival monopolies in the American oil industry. All of them have grown tremendously since the war and most of them are still, during the crisis and depression, adding to their oil reserves and buying up smaller oil properties at bargain prices. True to the disorderly chaos of capitalism even in its monopoly stage, they were overbuilt during prosperity * and continue to expand during depression. Only one of the "large and medium-sized integrated companies" has fallen into bankruptcy since the crisis.

Outside of these ruling monopolies there functions in the United States a more chaotic section of the industry, constantly beaten down by the domination of the monopoly group. Here we find more than half of the domestic crude oil production and possibly one-fourth of the domestic refinery capacity. The companies outside of the monopoly area are in

* Utilized capacity of refineries in the U. S. during 1929 was 74% of total, according to the Brookings Institution study, *America's Capacity to Produce*, page 93.

subjection to it at both ends of the industry: in the production of crude and in the market for refined products.

The big companies have assured themselves of large domestic oil reserves and supply part of their current refinery needs from their own wells. But they have always bought much of their crude oil from the 18,000 outside producers. These 18,000 mostly represent small capital, staking out claims and paying royalties to innumerable surface owners in territory through which they drain in feverish competition some great single underlying pool of oil. Their quest for profits and the landowners' clamor for royalties have led to chronic over-production of crude.

Outside producers of crude have always depended largely upon the big companies for their market, and in most fields these companies by their purchases have set the price of crude. The greater the over-production the lower the point to which the oil monopolies can force the price. That refiners' profits are swollen by the depressing of crude prices was admitted by a gossipy writer in the *Wall Street Journal* when the attempt to limit production of crude under the NIRA had pushed up its price. He wrote (October 18, 1934):

> A director of one of the Standard Oil companies remarked to a friend recently that one would not see any appreciation in oil shares until the prices of crude oil declined.

Big companies not only have most of the refinery capacity but they own most of the "gathering" pipe lines which connect oil wells with refineries in the oil regions. And the big integrated companies (plus some half-dozen Rockefeller pipe line companies separated from refineries in 1911) control the "trunk" lines and the ocean tankers by which crude is transported from the oil regions to large refineries in the chief industrial areas. The new gasoline pipe line from the southwest to Chicago and other mid-west cities is also in the hands of the oil monopolies.

Common carrier pipe lines are supposed to be subject to federal regulation but some important lines refuse to transport outside oil, and some of the common carriers fix such a high minimum limit for the quantity they will handle that they exclude entirely the oil of the smallest producers. The fact that "uniform" rates charged by the pipe lines for carrying outside oil are excessively high has also been repeatedly recognized by investigators.

At the marketing end, the big companies have built up tremendous systems of distribution with which small refineries can offer only limited local competition.

Discussion leading up to the adoption of a petroleum code under the NIRA showed that these and other methods by which the dominant companies lord it over their outside competitors were still in full swing in 1933. Space forbids a full analysis of the ways in which the code and its administration favored the big companies. One or two points, however, are of special importance.

Outside producers demanded certain exact provisions by which they hoped to cut down the extra profits drawn by the big companies from their pipe line operation. But the petroleum code as adopted made only a general and unenforceable statement on this subject.

Outside refiners and distributors wanted price fixing for refined products with allowance for cheaper grades from the small refineries. Instead the code provided that no refiner or distributor was to sell below cost, but the provision was so worded as *explicitly to permit any firm to meet competition in violation of this rule*. This left the way wide open for the big companies to retaliate when the small producer or small dealer starts to underbid their monopoly prices. And the real joker followed when Secretary Ickes, the Oil Administrator, on July 23, 1934, asked the president of Socony-Vacuum, as chairman of the Marketing Committee of the Planning & Coördination Committee, to take action on the "numerous price wars in many different localities"!

In petroleum, as in other industries, the committee set up to advise with the Petroleum Administrator and to enforce the code, was completely dominated by the large companies. Of the 26 members, 14 were officials of great integrated corporations or of the American Petroleum Institute "which operates as the switchboard for the controlling companies."[6] The terms of the code and the course of its administration not only left their monopoly power intact but gave representatives of the dominant companies a recognized status as the controlling force in the industry.

## *Rival World-Wide Companies*

Among the American oil monopolies only Standard of New Jersey, Socony-Vacuum, Gulf and Texas approach the world-wide scale of operations, although others have foreign interests which are much more limited in scope.

But the outstanding facts in the world oil situation are, first, the basic and permanent conflict over oil reserves and markets, between great American oil companies and the British oil trust (in which Dutch and French capitalists hold minority interests); and, second, the equally basic and permanent hostility of the oil interests of the capitalist world to the powerful Soviet oil trust.

British-American oil rivalry involves much more than the competition among a few great units of monopoly capitalism. It has always been intertwined with the general inter-imperialist conflict. For petroleum is one of the most essential minerals of modern industry. Without a dependable supply no nation can wage war to-day. The fiercely competitive drive of British and American companies for control of oil reserves wherever they can be found is both an expression of the deep underlying British-American conflict and itself a potent source of friction. The oil "war" sometimes yields to a temporary truce or local coöperation. Especially "confused and disordered" has been the relation of both groups to Soviet oil.

Lines of combat have shifted rapidly. The Deterding and Rockefeller forces have joined in drives against the common "enemy" one day, and the next day turned to fight each other—while negotiating separately and secretly with Moscow.[7]

So also occasional joint operations of Royal Dutch-Shell and a Standard company have been carried on in one field while bitter price wars or secret hostile maneuvers were raging in another field. For example, in 1933, American headquarters of Royal Dutch-Shell subsidiaries actually moved into one of the Rockefeller Radio City buildings in New York. In 1934, Standard of New Jersey, Standard of California and Dutch-Shell set up a joint subsidiary to explore for oil in New Guinea and put up joint opposition to the Japanese oil policy in Manchoukuo. But at the same time we read of new developments in their struggle for Argentine oil. And American companies are still excluded from producing and refining in India where the British are hoarding some of the richest oil reserves within the formal boundaries of the empire. We cannot assume that a permanent and thorough-going alliance has replaced the basic conflict of interest between British and American oil.

Both within the United States and throughout the capitalist world, the oil industry is a highly developed section of monopoly capitalism, dominated by a small number of powerful units. Within the United States, the large companies compete for sales, but their competition is modified by accepting the price leads of the Standard companies, by sharing of patents, and by joint operations. Their monopoly status has not prevented over-building of refineries and filling stations; it has not checked over-building of wells and over-production of crude oil by outsiders. On the world market, British and American monopoly groups drive against one another with the support of their respective governments. Occasionally they find it more profitable, or tactically desirable, to work together, but oil rivalry of the two nations has been a basic factor in post-war diplomacy.*

* For the international story of oil see such books as Ludwell Denny, *We Fight for Oil;* Louis Fischer, *Oil Imperialism;* R. Page Arnot, *The Politics of Oil.*

CHAPTER XI

# COPPER, A METAL OF EMPIRE

LESS than a dozen large corporations dominate copper mining and refining throughout the capitalist world. Several of these are linked with identical financial groups, and Morgan is the strongest single power in the industry. Copper is doubly important for our study. It is one of the basic metals in modern industry. And the situation within the industry illustrates the chaotic competition which persists along with a high degree of monopoly development.

Copper companies have also been responsible for some of the most violent tactics against the working class. For example, Anaconda, in the war against the Western Federation of Miners; Phelps Dodge, in the mob violence at Bisbee, Arizona, in 1917, when over 1,000 men were herded into box cars and dumped in the New Mexico desert; Kennecott Copper, in the 1935 terror at Gallup, New Mexico, a town completely dominated by Kennecott's coal-mining subsidiary.

## *Chief American Companies*

Anaconda Copper Mining Co., with its subsidiaries, is the largest copper producer in the world. Its chief mining operations within the United States are in and around Butte, Montana, which is the unofficial capital of that state. But its foreign copper holdings have become increasingly important. It dominates Chilean copper, through Chile Copper Co. and Andes Copper Co. It controls a large Mexican operation: Greene Cananea Copper Co. Anaconda has other important metal-mining interests, both in the metals derived from its copper ores and in its zinc properties in Silesia.

Anaconda is a completely integrated vertical trust. It operates lumber, coal and oil interests as well as metal-mining. It owns or controls three of the nine electrolytic copper refineries in the United States. It is the largest fabricator of finished copper and brass products. It has had since 1924 a large interest in Flintkote Co. (roofing materials) which in 1928 also became affiliated with Royal Dutch-Shell.

Over 60% of the Anaconda copper output is now mined abroad, and Anaconda refineries and factories in the United States are geared to handle far more copper than is produced by Anaconda mines within

the country. These facts are of basic importance in the picture of monopoly and competition within the copper industry.

Anaconda Copper Mining Co. was for years controlled by the "Standard Oil Gang," and Percy A. Rockefeller, heir of John D. Rockefeller's brother William, was a director until his death in 1934. To-day it should not be considered a "Rockefeller" company. It had remained in close connection with National City Bank, but this is no longer a "Rockefeller" bank. And the ties with National City were loosened by changes in 1933, including the death of John D. Ryan, chairman of Anaconda and director of National City, and the retirement from National City of its notorious chairman, C. E. Mitchell, who remains on the board of Anaconda.

Meantime the connections between Anaconda and Morgan's Guaranty Trust Co. have been strengthened.* And another indication of a trend toward Morgan appears in Anaconda's Arizona affiliate, Inspiration Consolidated Copper Co. Here Anaconda acquired a controlling minority interest without breaking the ties between Morgan and Inspiration. Its seven directors include Grayson M.-P. Murphy, a director of Guaranty Trust Co.; L. D. Ricketts of Phelps Dodge Corp. in which Morgan influence is strong; and Charles A. Corliss, brother-in-law of the Morgan partner, Thomas W. Lamont, and business associate with him in Lamont, Corliss & Co.

These connections, of course, do not establish Morgan control of Anaconda but they do bring Anaconda within the Morgan sphere of influence. Actual control probably rests with the officials and directors, but increasing coöperation with the Morgan group is indicated.

Kennecott Copper Corp. is the second largest copper mining enterprise in the world and the largest producer of copper within the United States. It depends chiefly on two large domestic subsidiaries, Utah Copper Co. and Nevada Consolidated Copper Co., and on a Chilean company, Braden Copper Co., which is less important than the Chilean subsidiaries of Anaconda.

Kennecott is a less complete vertical trust than Anaconda. For the refining of its domestic copper it depends entirely on the American Smelting & Refining Co. The Chilean subsidiary operates its own refinery from which copper is shipped directly to the European market. Kennecott has a fabricating subsidiary, Chase Companies, Inc., but most of its copper is sold for fabrication by outside companies.

Kennecott Copper Corp. was developed by the Guggenheim family. Utah Copper and Nevada Copper also had the backing of Hayden, Stone & Co. Morgan interests were already involved at the time of the Pujo Committee study (1912). In 1935 the executive and finance committees

* Cornelius F. Kelley, president of Anaconda (who received from the corporation $171,666 of salary in 1934), has long been a director of Guaranty Trust. In 1933 a second cross-directorship was established by adding Grayson M.-P. Murphy to the board of Anaconda. The three voting trustees who manage the Silesian interests of Anaconda are Kelley, W. A. Harriman, and W. C. Potter who as president of Guaranty Trust is definitely a Morgan man.

of Kennecott included two Morgan partners, two members of the Guggenheim family, and the head of Hayden, Stone & Co. Another Guggenheim, a third Morgan partner, and Seward Prosser, chief executive of Bankers Trust Co. (Morgan), were also on the board of directors.

American Smelting & Refining Co. is a small producer of copper, although a large producer of other non-ferrous metals, but it is extremely important in the copper industry as the owner of three of the nine electrolytic copper refining plants in the United States. These are operated chiefly on the "custom" basis with Kennecott Copper as the largest but not the only producer whose copper they refine. American Smelting & Refining also owns a substantial interest in a fabricating company, Revere Copper & Brass, Inc., which serves as an outlet for part of the copper refined by the company.

Like Kennecott, American Smelting & Refining is a Guggenheim company. No Morgan partner is on the board of directors, but Morgan is represented through officials of Morgan banks. The strong Morgan participation with the Guggenheim interests in Kennecott also doubtless carries an indirect influence into this closely allied corporation.

Third largest copper producer in the United States is the Phelps Dodge Corp. which operates chiefly in Arizona. It has a small Mexican subsidiary, Moctezuma Copper Co. Like Anaconda, Phelps Dodge has become a complete vertical trust, but unlike Anaconda its foreign production is relatively unimportant. Two of the nine electrolytic copper refineries in the United States are owned by Nichols Copper Co., a subsidiary of Phelps Dodge. Phelps Dodge had made notable expansion of properties during the crisis, although of course its current output was very small.

Phelps Dodge Corp. has always been closely identified with the Southern Pacific Railway and together they dominated the earlier development of the Southwest. It has for many years been represented on the National City Bank. Arthur Curtiss James, an old Morgan ally identified with the First National Bank of New York, is also an old-time director of Phelps Dodge, but only at the end of the boom did the Morgan firm enter actively into the affairs of the company and secure a seat upon the board of directors. To-day Phelps Dodge can be reckoned as clearly under Morgan influence and possibly under Morgan control.

Copper from Michigan, which provided fabulous profits for Boston capitalists for many years up to and including the World War, has been overshadowed in volume by the copper of the Rocky Mountains and the Southwest, but its high quality makes it valuable for certain uses. It is outside the domain of the giant companies and is still dominated by three companies closely related to Boston banks and having unimportant New York connections. Each of the three—Calumet & Hecla Consolidated Copper Co., Copper Range Co. and Quincy Mining Co.—has a furnace refinery. They do not have fabricating plants.

One additional electrolytic copper refinery, besides those owned by Anaconda, American Smelting & Refining, and Phelps Dodge, is operated by U. S. Metals Refining Co., a subsidiary of American Metal Co., Ltd.

American Metal was not itself a producer of copper within the United States, until it acquired control in November, 1935, of Consolidated Coppermines Corp., which owns mines in Nevada. But American Metal has been of great importance in the copper industry. It refines copper mined and smelted by its own Cuban subsidiary, Minas de Matahambre, S. A., and does "custom" refining for a few other copper mining companies. These include Cerro de Pasco Copper Corp. (of Peru), in which Wm. Randolph Hearst is heavily interested and on which until recently the Morgan firm was represented by one of the Morgan partners. American Metal controls one of the two large copper companies in Rhodesia. And it is the most important commercial refiner in the United States of "secondary" copper, retrieved from junk.

American Metal was built up by an independent group, under the leadership of Ludwig Vogelstein and Otto Sussman, but it has in recent years coöperated with Morgan copper interests in Canada and South Africa. Its directors now include Fred Searls, Jr., vice-president of Newmont Mining Corp., a Morgan mining investment and prospecting company, and Robert C. Stanley, president of International Nickel Co. of Canada, Ltd., in which Morgan and duPont are heavily interested and probably hold control.

These four companies (Anaconda, American Smelting, Phelps Dodge, and American Metal) owning electrolytic refineries control the gateways through which passes all the copper mined in the United States outside of Michigan. Smaller companies are not only technically dependent upon them but also with few exceptions (chiefly the Lewisohn interests) they sell their product through the big refining companies.

Many of the more important "independent" copper mining companies are also linked to the big companies by financial interest. In the Arizona fields, for example, Phelps Dodge refines for Magma Copper Co., linked to the Morgan group through Chas. A. Corliss and two executives of Newmont Mining Corp.; and for United Verde Extension Mining Co., which is linked to Newmont through Fred Searls, Jr., and to Phelps Dodge through a director of its subsidiary, Nichols Copper Co.

## *In Canada and Africa*

Until recently all the Canadian copper, as well as Mexican, South American and some African copper, was smelted at the mines but shipped to the United States for refining. But since 1929, two large Canadian electrolytic refineries have been built, and copper from mines in eastern Canada is no longer dependent on refineries in the United States.

Ontario Refining Co., Ltd., was organized jointly by International Nickel, American Metal, and the small copper mining subsidiary of the Canadian Pacific Railway Co. Since June, 1935, International Nickel has owned all the stock. It provides most of the ore that passes through this refinery.

Canadian Copper Refiners, Ltd., is controlled by Noranda Mines, Ltd. (on which the duPont interests are represented), but Nichols Copper (Phelps Dodge) and the British Metals Corp., Ltd. (a trading concern) are also interested. This refinery handles not only the output of Noranda mines and several smaller companies but also the smelted ore from the Morgan-controlled Hudson Bay Mining & Smelting Co., Ltd.

In western Canada, Howe-Sound Company is cross-linked with American Smelting & Refining (which refines its ores) and with the Chase National Bank. Granby Consolidated Mining, Smelting & Power Co., Ltd., now inactive, is controlled by Hayden, Stone & Co., who have a considerable minority interest in Kennecott.

Obviously the new Canadian refineries have not brought independence from American financial control of refining and mining. Morgan and Morgan allies remain the most powerful group in Canadian copper.

African copper was first developed on a large scale in the Belgian Congo, through a Belgian government-subsidized corporation, L'Union Minière du Haut-Katanga. Just across the boundary from the Katanga province, rich copper ores were later found and developed in the British state, Northern Rhodesia. Although these mining concessions were held by British companies, American capital and American engineers participated from the beginning in the development of Rhodesian copper. Rhodesian mines were not ready for production until after the crash of 1929.

About the Rhodesian mines the capitalists have built up a maze of holding companies and operating companies, in which two groups can be untangled. Morgan is well represented in the "Rhokana" group and American Metal is dominant in the "Roan Antelope" group, but the two groups are not wholly separate.

The "Rhokana" group is "the most important producer of copper in the British Empire," according to the Belgian financial manual.[1] It operates and controls the Bwana M'Kubwa properties and others, and has a minority interest in the Mufulira mines controlled by the "Roan Antelope" group. Three companies stand out in the "Rhokana" group: Anglo-American Corp. of South Africa, Rhodesian Anglo-American, Ltd., and Rhokana Corp., Ltd. On one or more of these three closely interrelated companies we find Vernon Munroe of the Morgan staff and two representatives of the Morgan-controlled Newmont Mining Corp. Mining development was carried on by Newmont engineers, and Morgan is American banker for this group of companies. Morgan interest is probably secondary to controlling British interests. For example, the (British) Rio Tinto, Ltd., which owns in Spain the most important western European copper mines, is a minority stockholder in Rhokana Corp., Ltd., and elects three of the Rhokana directors. But the Morgan group has definite minority representation in the "Rhokana" companies.

The "Roan Antelope" group is controlled by Rhodesian Selection Trust, which in turn is controlled by American Metal Co., Ltd. Its principal mining properties are Roan Antelope Copper Mines, Ltd., and Muful-

ira Copper Mines, Ltd. As we have noted, Rhokana Corp., Ltd., is a minority stockholder in Mufulira.

Until very recently, much of the African copper was shipped to the United States for refining. The Katanga company (Belgium) had a long-term contract with Nichols Copper Co. which is now a subsidiary of Phelps Dodge Corp. Rhodesian copper was at first refined here by American Metal. But now the Katanga copper passes through an electrolytic refinery owned by an affiliated company in Belgium. The British capitalists interested (with American Metal) in the Roan Antelope group have built a refinery in England. And the Rhokana Corp. in October, 1934, opened a refinery in Rhodesia. The world supremacy of United States copper refineries is passing.

Summing up these facts about financial interests in copper:

Morgan and Morgan allies control companies which produce and refine more than half the copper mined in the United States and most of the copper mined and refined in Canada. Morgan interests have indirect connection with Anaconda and American Metal which complete the number of electrolytic refineries in the United States. Anaconda and, in second place, Kennecott (which is Morgan-Guggenheim controlled) dominate Chilean copper. Morgan participates, along with British interests and the American Metal group, in Rhodesian copper. Quite outside of this Morgan network are the Belgian company mining copper in Katanga province of the Congo and the companies which produce small tonnages in several western European countries and in Japan.

Morgan copper interests have been increased in recent years with the expansion of Phelps Dodge Corp., the rising copper output of International Nickel in Canada, and the development of Rhodesian copper. But during these same years competition in the copper market has been enormously sharpened. An international cartel broke down completely at the very time when the strongest financial group in the industry was increasing its copper interests. Analyzing this apparent paradox we shall see again how the quest of immediate profits is the one guiding principle of the capitalist overlords and how this quest of profits carries separate corporate units into conflicts of interest in spite of a strong financial link between them.

We shall review in some detail the course of the international copper cartel and other attempts at price and sales agreements in recent years. Such details are necessary to an understanding of the essential instability and chaos of monopoly capitalism.

## *Attempts at World Agreement*

When demand for copper was broadly on the upgrade, after the first post-war economic crisis, the New York price—which dominated the world market—moved sharply up and down as industrial buyers varied their volume of orders and the big companies allowed their accumulated

stocks to rise and fall. Wide differences in cost of production invited price-cutting. Refined copper was a speculative commodity, often more profitable to traders than to the producing companies. The long-run advantages of a steady high price invited an alliance of competing monopolies.

In 1926 an international copper cartel for control of the foreign markets was created under the name of Copper Exporters, Inc. It was dominated by the three great American groups of companies: Anaconda, Kennecott and its ally, American Smelting & Refining, and Phelps Dodge. It included American Metal, chief producer of secondary copper, and all the more important foreign producers and dealers. Altogether, about 90% of the world output was produced by companies in the cartel. The agreement was concerned with sales quotas and uniform world prices. It did not include production quotas. If demand for copper fell below the volume on which the sales quotas were based, each member corporation was free to continue production and increase its accumulated stocks. Prices were "stabilized" with a smooth upward trend and protected amply the profits of the high cost producers. The basic price for refined copper was pegged successfully at 18 cents a pound until May, 1930, nearly a year after the market for copper had begun to decline.[2]

Meantime development of new copper reserves was being pushed by companies outside the cartel. The financial world dreamed of endless industrial expansion under capitalism, so Morgan's Hudson Bay Mining & Smelting Co., Ltd., was organized in 1927. The building of mines and smelters went forward in Northern Rhodesia with the coöperation of Morgan and American Metal interests. International Nickel, whose incidental copper output was small in 1926, was meeting a sharply rising demand for nickel—a rise which still continues with the increased use of alloy steel and the activity in armament and chemical industries. Not only that, but International Nickel began to work a richer body of ore that yields two pounds of copper for every pound of nickel. In 1931, Rhodesian copper appeared on the world market. By 1933, Canada and Rhodesia were producing a tonnage that would have been more than 12% of the world total in 1929 and was 23% of the smaller world total of 1933.

Other developments, apart from the world economic crisis, also tended to weaken the international sales and price cartel. Increasing amounts of scrap copper were available and the high prices maintained by the cartel drew them on to the market in rapidly rising volume. Within the United States, for example, this "secondary" copper supplied 11% of the total consumption in 1926 and 25% of total consumption in 1930. Also the high price for copper definitely stimulated the use of substitute metals, including the steel alloys which increased the demand for nickel.

As soon as the economic crisis definitely checked and pushed downward the demand for copper, competition was greatly sharpened. The perpetual conflict of interest among the producers within the cartel came to the surface. Low-cost producers were ready to let prices move down-

ward in the hope of increasing demand for copper. Companies with large accumulated stocks sought an agreement to limit production. Such an agreement was attempted during 1930, and again in 1931 and 1932. But accumulated stocks continued to pile up. African producers were unwilling to accept the quotas assigned to them. The Katanga company withdrew from the formal cartel. World production conferences, including companies outside of the cartel, attempted to work out new quotas, but no basis could be agreed upon until 1935, when the Copper Code (under the NRA) had fixed monthly sales quotas for producers in the United States.

The cartel price meanwhile had cracked in the spring of 1930. It slipped downwards and late in 1931 the cartel attempted to save its appearance of control by "allowing" members to undersell the pegged price provided all members were notified. This, of course, marked the definite end of price control and by December, 1932, copper on the New York market was selling at less than 5 cents a pound.

In spite of the collapse of the cartel and the failure of world production agreements, Morgan copper interests built up new strategic positions. A clear line-up of American companies on one side and foreign companies on the other side has emerged from the crisis.

From June, 1932, to July 1, 1935, production within the United States was protected by a tariff of 4 cents a pound from imports of copper mined at lower cost in Chile or Africa. This tariff was put over by Phelps Dodge Corp. (a Morgan company) and other companies having relatively small copper mining subsidiaries, or none at all, outside of the United States. It was fought unsuccessfully by Anaconda, whose fabricating properties are geared to use far more copper than Anaconda mines in the United States can produce. Kennecott (also Morgan) apparently did not oppose the tariff, since their fabricating interests use less copper than Kennecott companies produce in the United States and their Chilean subsidiary was already reaching the European market.

Later in the same year, at the Ottawa conference, companies operating within the British Empire (including, as we have seen, a strong Morgan interest) secured from Great Britain the promise of a copper tariff to be imposed under certain conditions on copper imports produced outside of the empire. The British tariff has not yet been made effective. Apparently the conditions have not yet been fulfilled: that ample supplies of copper from electrolytic refineries within the empire must be available at current world prices. But developments in Canada and Rhodesia are bringing nearer the day when non-empire copper will have to jump a tariff hurdle to compete in the English market.

Morgan copper interests are strongly entrenched within the United States and within the British Empire. Outside of these areas, competing with United States producers for European, South American and Far Eastern markets, are the Anaconda and Kennecott subsidiaries in Chile, the Hearst (and perhaps Morgan) Cerro de Pasco in Peru, the large Belgian company in the Congo, and the smaller producers in Mexico,

Japan, Spain, Germany, Yugoslavia, etc. Temporarily, at least, some Canadian and Rhodesian copper is also edging into this outside market.

On the continent of Europe, the Belgian company holds the strongest strategic position, not only controlling a large modern refinery in Belgium but closely interlocked with German refineries and metal dealers and with the chief metal trading company in France. The European market is now dominated by low-cost copper from Africa and South America.

Most of the copper produced in the United States could continue to compete in an unregulated market only by "dumping" abroad at a price lower than its average cost of production. With the aid of tariff, the depreciated dollar, and NRA sales quotas, a spread of two to two and a half cents a pound was maintained between the price of copper in the United States and the "dumping" price of American copper in the export market. When the NRA was broken down, the price within the United States dropped slightly. At the same time increasing demand from European war industries—together with the new world agreement for limitation of output—was pulling up the world price. In the United States the 9-cent price has been restored, and the differential between this and the European price has temporarily disappeared.

Copper mines and refineries within the United States have a capacity far beyond the needs of American industry during the slow recovery which lies ahead. They could meet the copper needs of a boom year like 1928 and still produce a surplus for export. The large accumulated stocks of copper (which broke the price in 1930) have been reduced by keeping production below the slowly rising demand. Masses of jobless copper workers have carried the burden of "stabilizing" the industry.

When the National Industrial Recovery Act in 1933 gave opportunity to set up legal agreements for restriction within the United States, each of the powerful companies fought for that particular plan which would ease its own situation. The code finally agreed upon in April, 1934, allowed the Code Authority (which was dominated by the big companies) to fix monthly sales quotas, but left each company free either to sell from its accumulated stocks, to produce its sales quota, or to add an unlimited quantity of new copper to its existing stocks. If destructive price cutting were indulged in, the Code Authority might certify the fact to the Administrator, and minimum prices and production quotas could be fixed. Actually, the Code Authority merely enforced domestic sales quotas equal to approximately 20% of capacity. Domestic sales ran below the permitted quotas, but (without any publicly admitted agreement) the basic price within the United States was held, as we have noted, at 9 cents a pound.

In March, 1935, a new world agreement was adopted. This cut foreign copper production by over 20% and affected especially the South American and African producers. No pooling of sales or price-fixing was included.[8]

All the big copper companies were making high profits during the

boom and they have thus far stood without cracking under the strain of the crisis, but their mines in the United States worked in 1935 at less than 40% of capacity. Seventeen smaller copper mining companies whose 1929 production was listed by the American Bureau of Metal Statistics, were shut down through the entire year 1933.[4]

Copper illustrates in miniature many of the inner economic contradictions of the capitalist system. Although a handful of large corporations (many of them under Morgan influence) control the principal copper mines and refineries, competitive forces prevent strong, unified monopoly. The drive for profits led to expansion of capacity. World economic crisis brought to a halt the normal industrial demand for copper, and yet new mines were opened and poured their output upon the market. Then a temporary tariff barrier was set up to divide the world market, and from behind it the great American producers "dumped" their copper abroad in competition with the foreign lower-cost producers.

But "satisfactory" current profits for the stockholders cannot be piled up until the volume of copper sales is greatly increased. This can be achieved only by marked revival of industrial construction (of which the immediate prospect is slight), by further increase of armaments, or by a renewal of trade war with the low-cost foreign copper producers to regain the former dominance of United States copper in the European market.

CHAPTER XII

# AROUND THE WORLD WITH ELECTRICITY

To illustrate the technical and financial network in which the electrical industries are tied together, we shall sketch briefly the present interrelations in the manufacture of electrical equipment, the operation of electrical utilities, the broadcasting monopolies and the production of motion pictures. We shall find a high degree of concentration except in certain fields of manufacture for which relatively small capital investment is required. The Morgan group dominates in electrical manufacturing and utilities while Rockefeller interests are also important in the field of broadcasting and motion pictures.

## *Manufacturing*

General Electric Co. (Morgan-controlled) is the largest electrical manufacturer in the world. It has a complete line of electrical products except that the manufacture of telephones and sound picture apparatus in the United States is concentrated in subsidiaries of the Morgan-controlled American Telephone & Telegraph Co.

General Electric, created in 1892, was the first important industrial merger arranged by J. P. Morgan outside of the railroad field. The Morgan firm has maintained close banking relations with the company and is well represented on the board by one partner, Thomas Cochran, and at least three outside "Morgan" men: Seward Prosser, chairman of Bankers Trust Co.; Bernard E. Sunny, official of the Illinois branch of the telephone trust; and Clarence M. Woolley, chairman of American Radiator and Standard Sanitary Corp. Working with Morgan in General Electric are also a group representing the First National Bank of Boston and, until the death of H. C. McEldowney in 1935, one representative of the Mellon interests.

Second largest American electrical company with a widely diverse line of products is the Westinghouse Electric & Manufacturing Co., whose total output is about half that of General Electric. These two companies have their separate laboratories and compete sharply both here and abroad although they have mutual licensing agreements for certain basic patents.

Morgan had a hand in reorganizing Westinghouse after the 1907 crisis, but the firm withdrew from the Westinghouse board six years later, during the wave of unpopularity which followed the Pujo Committee revelations of Morgan's monopoly power. Westinghouse financial affairs have been nursed since then by Kuhn, Loeb & Co. and, increasingly, by the Mellon family. In 1933 a Rockefeller representative joined the Westinghouse board. The Mellon group (which works closely with Morgan) is apparently dominant in Westinghouse and through its representative on General Electric it served as one direct link between these two companies. Another indirect link between Morgan and Westinghouse appears in the fact that Westinghouse and Baldwin Locomotive Works manufacture electric locomotives as a joint product.

These two companies are the chief competing monopolies in the manufacture of heavy electrical products in the United States. In a survey of public utility (light and power) equipment in use in 1925, the Federal Trade Commission reported the following distribution among producers: General Electric, 64%; Westinghouse, 25%; Allis-Chalmers, 9%; all other or not stated, 2%.

Allis-Chalmers Manufacturing Co. competes with them only in this field of heavy electrical equipment and its total volume of business, including non-electrical machinery and farm implements, is about one-tenth that of the General Electric Co. Allis-Chalmers is tied in with Hayden, Stone & Co. and the Chase National Bank. At the same time it must be noted that Allis-Chalmers electrical products are sold (or manufactured) in Canada only through the Canadian subsidiary of General Electric.

GE and Westinghouse produce between them more than 60% of all generators (except the small automotive type), transformers, motors (except those of fractional horsepower), control apparatus and electric light bulbs. They produce 40% or more of the switchboards and fractional horsepower motors. They are weakest in the field of automotive generators, small self-contained power and lighting outfits, insulated wires and cables, and miscellaneous electrical products.[1] These figures refer to 1923, but it can be assumed that changes in recent years have certainly not decreased the share of the big companies in total production.

Big capital is clearly present in the industry through other companies also, but most of the other companies having Wall Street connections do not compete in the fields where General Electric and Westinghouse are dominant. Western Electric Co., manufacturing subsidiary of the American Telephone & Telegraph (Morgan-controlled) is larger than Westinghouse, but it specializes in telephone apparatus and related equipment. From the development of telephone technique, Western Electric has stepped over into the field of sound picture apparatus.

General Motors Corp. (Morgan-duPont) not only manufactures electrical parts and accessories for automobiles and airplanes, but also refrigerators ("Frigidaire") and small light and power plants for country

houses, motors, vacuum cleaners, fans, voltage regulators, etc., through its Delco and Sunlight Electrical divisions. Through its Electro-Motive Corp. General Motors is proposing to manufacture Diesel electric locomotives.[2]

Subsidiaries of Anaconda Copper Mining Co. (tied in with National City Bank and Guaranty Trust Co.) and of Phelps Dodge Corp. (Morgan and National City Bank), and the General Cable Corp., which is controlled by American Smelting & Refining (Morgan-Guggenheim) dominate the field of insulated wires, cables, and copper parts.

Otis Elevator Co. (tied in with New York Trust Co. and Bankers Trust Co.) makes 70% of the elevators installed in the United States. Kelvinator Co., which follows General Motors and General Electric in refrigerator output, is indirectly linked with Morgan through Ernest Stauffen, Jr., chairman of Marine Midland Corp., and includes on its board P. J. Ebbott, a vice-president of Chase National Bank.

Dominance of big capital has been less successful in the manufacture of radio sets, where the combination of a rapidly expanding market and relatively small capital requirements gave opportunity for rapid growth of independent producers, with widespread pirating of the basic patents owned by the big companies.

General Electric and Westinghouse, United Fruit (which operates a wireless telegraph system in Central America), and a radio subsidiary of General Motors pooled their radio interests with the Radio Corp. of America. RCA acquired large manufacturing plants and tried to enforce a patent monopoly and crowd the outsiders out of business. But the exclusive patent pool, etc., was much too obviously a drive for absolute monopoly. The government entered suit in 1930 under the anti-trust laws and in 1932, under a "consent decree," the big companies "voluntarily" abandoned their exclusive patent pool. General Electric and Westinghouse distributed to their stockholders shares which they had held in Radio Corp. of America. General Electric has already returned to the manufacture of radios. But RCA continues also to have not only the use of GE and Westinghouse radio patents but also the sole right to issue licenses to other companies that wish to use them.

Terms as to royalties on radio patents are much easier now, under court order, than those which the big companies tried previously to enforce. The number of firms legally licensed to use the radio patents of the big companies has increased. Radio Corp. is exacting toll in the form of royalties from 52 licensed competitors manufacturing radio sets and from 13 licensed makers of radio tubes. Estimates for 1934 production of radio sets showed 12 companies manufacturing about six-sevenths of the total number and the balance scattered among approximately 100 other manufacturers. An independent company, Philco, led with about 30% of the total. Radio Corp. and General Electric sets manufactured for GE by Radio Corp. were second with 17% of the total.

It is worth noting that one important independent, Atwater Kent, whose position has been weakened by the increase in cheap midget sets,

was shown by the Morgan firm among its depositors in the lists filed with the Senate Committee in May, 1933.

## *Patents and Other Weapons of Monopoly*

GE and Westinghouse hold a strategic position through their control of patents and they have pursued a relentless policy of attacking competitors who try to pirate their ideas. Exclusive patent rights expire at the end of 17 years, but new technique developed in the laboratories of the big companies keeps them supplied with a fresh source of patent monopoly. Their patents (except under the radio agreement) are licensed to selected competitors and give the big companies not only revenue from royalties but a handle for production and price agreements.

Little exact information about patent relationships is available. At the hearings before the National Recovery Review Board ("Darrow Committee"), counsel for the General Electric reported that the members of the National Electrical Manufacturers Association include 81 companies, not subsidiaries of GE, which are licensed to use one or more GE patents.[3] In the manufacture of electric light bulbs, according to testimony given by an independent before the same committee, General Electric had licensed Westinghouse and seven other companies. These nine large and small concerns together produce 93% of all electric light bulbs made in the United States.

Apart from patents, the output of small competitors is held down, and their market may be destroyed, by various indirect methods. Large companies can pour out funds for nation-wide advertising of their "standard" goods implying unfair comparisons of quality. They can bring pressure on those who supply some essential material or manufacturing equipment. They can compel wholesalers and jobbers to feature their products and play down the products of outsiders. Also, of course, these monopolies have a tremendous advantage in their own nation-wide sales organizations and their ability to supply every detail of electrical equipment. In dealing with corporations in other industries controlled by big capital, the financial links among them can also serve as back door salesmen for the big electrical companies.

Some competitors may be distinctly tolerated so long as their competition is kept within limits. So just as Canadian General Electric controls the Canadian outlet for Allis-Chalmers electrical products, we find also that International General Electric acts as foreign sales agent outside of Canada for some 25 companies which may be licensees under GE patents but are not among its openly controlled subsidiaries.[4]

Very important also to the big companies is their working control of the National Electrical Manufacturers Association which is the principal trade organization and includes 631 companies. These represent 175 subdivisions of the industry. They are less than one-third of the total number of electrical firms[5] but they turn out 85% of the total product of electrical manufacturing in the U. S.[6]

The NEMA has played an increasingly important role during the past ten years. In 1933, it drafted the code for electrical manufacturing under the National Industrial Recovery Act and was appointed Code Authority for the industry under the NRA. Its executive committee of 15 includes only four representatives of General Electric and Westinghouse, but one of these is president of the association, and men from the big companies are chairmen of 10 of the 14 other (and much smaller) standing committees.

At least two points in the code itself strengthened the position of the big companies. As in several other industries the code authority might require full information from all electrical manufacturing companies operating under the code as to such items as capacity, production, sales, orders and inventories. Small competitors naturally questioned whether such important data even though "confidential" would not become accessible to the companies which dominate the NEMA.

On prices also the code helped the big companies. Throughout the earlier years of the crisis price cutting was "a relatively negligible influence in the electrical equipment industry." This tribute to the long-standing power of a small monopoly group was included in a statement by Standard Statistics Corp. in January, 1933, before Roosevelt had entered the White House. But during the early months of that year price cutting made its appearance even in the heavy equipment divisions of the industry.[7]

The NRA code drafted in July-August, 1933, and administered by the NEMA attacked this problem directly. It included open-price-listing provisions which made illegal any bargaining and underbidding below the openly posted prices. In an industry where quality of product is of outstanding importance, this technique serves to strengthen the monopoly prices fixed by firms with well-known trademarks and the prestige of size.

One of the most important elements in the power of General Electric and Westinghouse has been the almost complete exclusion of foreign competition in the American market. They have kept out foreign competitors in two ways. Most important have been their own affiliations with leading foreign producers of electrical goods. Patent agreements (and sometimes minority stock ownership) have given a base for marketing agreements and division of world territory, under which the German electrical trust and leading electrical manufacturers in other European countries and Japan do not attempt to sell their products in the United States and Canada.

Foreign independents are excluded by tariff barriers, carefully built and guarded by the big companies in the United States. Their purposes and their close contact with government authorities are openly admitted by the National Electrical Manufacturers Association. In its annual report for the year ended August 31, 1934, we read that the tariff committee of NEMA "coöperates with the American Tariff League which in turn is in constant touch with the United States Tariff Commission and the customs authorities."

When, in spite of the tariff, competition of Japanese electric light bulbs had become so sharp as to capture nearly one-sixth of the total sales in the United States, General Electric secured from a lower federal court an injunction against their importation on the score of patent infringement.[8]

## *World Monopolies*

Collaboration with the leading German companies had begun nearly forty years ago. Since the war, patent and marketing agreements have been revived between General Electric and AEG (Allgemeine Elektricitaets Gesellschaft) on the one hand and between Westinghouse and Siemens-Schuckertwerke, subsidiary of Siemens & Halske, on the other hand. General Electric has acquired 16% of AEG stock and has placed four of its officials on the AEG board.[9] It has also advanced some ten millions to Siemens & Halske, receiving non-voting debentures (that is, bonds) of that company. This would give General Electric a voice in Siemens & Halske affairs if losses of the German company became serious enough to threaten bankruptcy. Meantime their relations were said to be very friendly.

These two German companies have both strengthened their monopoly position since the war by important mergers—each one taking over competitors and extending its operations into new fields. They now have joint working control of at least nine companies, including a manufacturing subsidiary in Argentina, the German sound picture technical company (Klangfilm) and Osram, the most important member of the European incandescent lamp (i.e., electric light bulb) cartel. At least two other members of that cartel are affiliated directly with the American General Electric Co. or a subsidiary.

In England, General Electric and the British armaments firm of Vickers, Ltd., have joint control of a group of electrical manufacturing companies, on which the Morgan firm is also directly represented by one of its British partners. The top company of the group is Associated Electrical Industries, Ltd., and one of its subsidiaries is the Metropolitan-Vickers Electric Co., Ltd., which was involved in espionage trials in the Soviet Union in 1933. The British company called General Electric Co., Ltd., which had license to manufacture lamps under GE patents[10] staged a successful revolt in 1929 against American financial control. Westinghouse has exchange of patents with still another British company: English Electric Co., Ltd.

While in England General Electric is affiliated with the Vickers interests, in France Westinghouse is tied up with Schneider-Creusot. This steel and armament company owns jointly with Westinghouse Le Matériel Electrique S-W.[11] Westinghouse patents are also held by Compagnie Electro-Mécanique whose directors include M. de Wendel of L'Union des Mines, another powerful member of the French armament ring.

In Japan, General Electric is affiliated with a company controlled by

the Mitsui interests; Westinghouse is affiliated with a company controlled by the Mitsubishi group.

In the foreign market, therefore, General Electric and Westinghouse and companies with which they are affiliated operate with a typical confusion of rivalry and sharp competition in certain countries and in others a large measure of joint agreement. Within the General Electric-AEG combine we find the same confused situation. Certain countries (including United States, Canada and France) are reserved territory for General Electric or its non-German affiliates and AEG is excluded. Germany, Austria, Czechoslovakia and a few other countries are reserved for the AEG, while General Electric and its non-German affiliates are excluded. In South America and the Far East the German and American branches of this world combine have their rival sales organizations and operate in apparently unmodified competition.

The most important competitor of these two world-wide combines so far as heavy electrical equipment is concerned is the much smaller Brown Boveri & Co. of Switzerland. It has several European affiliates, especially in France, Italy and England. After the war Brown, Boveri & Co. set up an American subsidiary which was later merged with Allis-Chalmers Manufacturing Co.

But, again, Brown, Boveri has set up certain links with the larger units in the world electrical industry. In 1931, for example, it arranged a patent and marketing agreement with the Siemens companies of Germany. Before that, Brown, Boveri had been allowed by Siemens and AEG to participate with them in providing electrification equipment for German railroads. Also many of the Brown, Boveri utility interests overlap with the holdings of the big German trusts. Brown, Boveri is represented on the Compagnie Electro-Mécanique which has the use of Westinghouse patents in France.

One other foreign link in the field of electrical manufacture must be noted before we turn to the utilities interests of these world combines. Radio Corp. of America had working control, through 29% of the common stock, of Electric and Musical Industries, Ltd., until in November, 1935, it sold the shares to Morgan, Grenfell and another London banking firm.[12] Electric and Musical Industries is the chief producer in Great Britain of phonographs and radio sets, and since 1934 it has been making electric refrigerators. It has plants also in Europe, Asia, South Africa and Australia.[13] Jointly with Cables and Wireless, Ltd. (another British company) it controls a new subsidiary set up to promote television.

## *Electric Light and Power*

Electric light and power companies have been developed both here and abroad in close relation to the interests which control the manufacture of heavy electrical equipment. In the United States, General Electric often helped to finance its sales of equipment to a utility company by taking in

part payment bonds or shares of stock issued by the utility. These utility investments of General Electric were held by Electric Bond & Share Co., a special subsidiary created for the purpose.

In 1924-25 General Electric withdrew from ownership and formal control of Electric Bond & Share Co. and distributed to its stockholders the stock of E.B.&S. But this first great utility holding company in the United States, Electric Bond & Share, remained under the control of the Morgan firm and their close allies, Bonbright & Co.

After the war, the Morgan firm and Bonbright & Co. began extending their control of light and power companies also through other groupings outside of the Electric Bond & Share Co. until to-day they dominate about half the total installed capacity. Outside of these companies, which are clearly in the Morgan-Bonbright financial kingdom, is an outer ring of four smaller groups, more indirectly linked to the Morgan-Bonbright interests. These bring the area now under Morgan influence above 60% of the total kilowatt capacity as of 1931.*

The Morgan utilities include among others the Consolidated Gas Co. of New York (which controls N. Y. Edison and other electric light and power companies in New York City and Westchester County); Public Service Corp. of New Jersey and other affiliates of the United Gas Improvement Co. of Philadelphia; Niagara Hudson Power Corp.; Alabama Power Co. and all others in the Commonwealth and Southern group. The bankruptcy of the Insull holding companies has been so manipulated as to add their chief properties to the Morgan-Bonbright domain.

About 12% of the total kilowatt capacity was linked in 1931 to the Chase National Bank-Harris Forbes group and about 5% to the Mellon interests. Since 1931 the Chase National-Harris Forbes alliance has been formally dissolved and the Chase utility interests seem now to be limited to United Light & Power Co. and International Paper & Power Co.

Utilities are an outstanding example of absolute monopoly with profits safeguarded by the capitalist government. Through franchises acquired with much graft and corruption they are protected from competitive services. This electrical monopoly is, of course, impaired to a limited degree by the competition of gas, but in many communities, as in most of New York City, gas and electricity have been brought under common control. Prices charged for electric current—and especially the rates for small consumers—have been pushed up to a high monopoly figure. In another chapter the relation of public utilities to the government is sketched as an illustration of the fate of "regulation" of big corporations.

The Morgan utility monopoly reaches out into Europe, Latin-America, India and China. It operates abroad under several forms. Most obviously through American and Foreign Power Co., a subsidiary of Electric Bond & Share, and through Italian Superpower Corp., for which Morgan gathered in several millions of American capital.

* For a full list of utility groups and their relation to financial interests, as of 1931, see *The Power Fight* by Stephen Raushenbush.

But most important in European utilities is the network of holding companies tying together financiers of every important capitalist country. "Sofina" (Société Financière de Transports et d'Entreprises Industrielles) is perhaps the leading unit. This is a Belgian company, but its 45 directors include financiers from London, Paris, Amsterdam, Berlin, Zurich, Rome, Barcelona and Buenos Aires. American interests are represented directly by a Paris partner in the Morgan firm (Maurice Pesson-Didion) and by Gordon Auchincloss, an "independent" New York capitalist. Seven directors of the Belgian affiliate of General Electric are on the board, including Dannie Heineman, the American-born Belgian who is chief executive of Sofina. Also at least two of the Paris directors of Sofina (besides Pesson-Didion) are active in the French affiliates of General Electric while the Berlin director (Oscar Oliven) represents General Electric's German affiliate, AEG. The Italian director, Count Giuseppe Volpi di Misurata, is on the Morgan-dominated Italian Superpower Corp.

Tied in with "Sofina" through stock interest and cross-directorships are several other utility holding companies. These include "Gesfuerel" (Gesellschaft für Elektrische Unternehmungen Ludwig Loewe & Co., A.G.), which is directly affiliated with AEG, and "Chade" (Compania Hispano-Americana de Electricidad) controlling utilities in Argentina. "Chade" is still cross linked with the AEG and the German banks which dominated these Argentine companies before the World War. Operating utilities in which Sofina is interested are found in England, throughout western Europe, and in Italy, Algiers, Mexico, and Argentina. Its German interests are extensive in operating companies which are also tied in with "Gesfuerel."

The various German holding companies are all interlocked with one another. They have not only the interests already noted in connection with "Sofina" but they have reached out through southeastern Europe. They are also linked with Swiss concerns which are, in their turn, close to Brown, Boveri & Co. No brief sketch could adequately describe the complete interlocking of the privately owned utilities of European capitalist countries. It is, however, clear that Morgan directly, and companies affiliated with Morgan interests, play a considerable role in these European monopolies.

### *Telephones, Telegraph and Wireless*

Quite distinct from these "high current" utilities are the "weak current" utilities providing various means of communication.

Within the United States and Canada, Morgan dominates the telephone trust (the American Telephone & Telegraph Co. and its subsidiaries) although no Morgan partner is on the board of directors of the top holding company. The John D. Rockefeller family has one representative on the board, but in spite of this the Morgan influence is far more powerful than the Rockefeller influence in the A.T.&T.

Two companies operate wire telegraph and ocean cable systems. Western Union Telegraph Co., the older and larger system, has never been directly under Morgan control except during the brief period (1909-14) when a large block of Western Union stock was held by A.T.&T. and the companies were jointly operated. When the companies were separated by court order, Kuhn, Loeb & Co., Harriman interests, and the William Rockefeller branch of the Rockefeller family resumed financial control of Western Union, which they continue to hold. Morgan does control directly the competing Postal Telegraph Co. and its sister cable companies,—subsidiaries of International Telephone & Telegraph Corp.

Relations among these three companies—A.T.&T., Western Union, and I.T.&T.—are very close. They compete for business, but at the same time they share certain facilities and Western Union has long-term service contracts with the telephone trust. Merging of Western Union and Postal Telegraph has been under discussion. The War Department emphasizes the importance of a unified communications system as a war preparedness measure (largely, it may be supposed, to simplify the job of censorship).

Wireless telephone and telegraph have been developed separately from the wire systems, but their use within the United States seems to have been held back deliberately because of the enormous investment of private capital in the wire systems. For foreign communications wireless telegraph is commercially operated by two groups of companies: subsidiaries of Radio Corp. of America and subsidiaries of International Telephone & Telegraph Corp. RCA's wireless telegraph service has operating contracts with Western Union for points in the United States. I.T.&T. links its foreign cable and wireless services with Postal Telegraph.

Both these corporations have grown under Morgan financial guidance and I.T.&T. is still completely Morgan-dominated. The present status of Radio Corp. is not so clear. Formal separation, under court order, from General Electric and Westinghouse in 1932 loosened its ties to the Morgan group, and at the same time Rockefeller interests entered the company's directorate. Whether Radio Corp. and I.T.&T. will continue their sharp competition in wireless communications or the Radio Corp. subsidiaries in this field will be merged with those of I.T.&T. is still uncertain. Such a merger was proposed in 1929 and fell through because anti-trust laws seemed to prevent it. Then in 1935 laws permitting monopoly in communications were proposed as making for economy and higher profits. So far as Radio Corp. and I.T.&T. are concerned, the fact that Morgan controls one company and Morgan and Rockefeller influence are both present in the other company, does not provide a ready-made clue to the next developments.

A much smaller radio telegraph system is operated in Colombia and Central America by Tropical Radio Telegraph Co., a subsidiary of United Fruit Co. This corporation is tied up with First National Bank of Boston and so is very indirectly related to the Morgan group.

American control of telegraph and telephone links with foreign countries became a recognized necessity for American imperialism. The first

Atlantic cable had been laid by the Western Union Telegraph Co., but until recent years the British had a monopoly of Pacific cables and of lines to South America. Now the cables of the Morgan-controlled I.T.&T. and Western Union, and the wireless services of I.T.&T. and RCA give direct communication through American channels, not only with the continent of Europe, but with all the principal countries in South America and with China and Japan.

Morgan telephone interests have penetrated most of the countries in which operation of telephones is not a government-owned monopoly. International Telephone & Telegraph Corp. has had since 1931 a 35% interest which gives working control of L. M. Ericsson Co., the Swedish international telephone trust. Between them Ericsson and I.T.&T. subsidiaries operate telephone systems in Finland, Poland, Italy, Spain, Roumania and Turkey; in Mexico, Cuba, Puerto Rico, Brazil, Uruguay, Peru, Chile, and Argentina; and in the International Settlement at Shanghai, China.

I.T.&T. subsidiaries and affiliates have a monopoly for all countries except the United States and Canada on the manufacture and sale of telephones under the patents owned by the American Telephone & Telegraph Co. In Germany, where the telephone system is operated by the government, the manufacture of telephone instruments is divided on a quota basis, with 60% assigned to Siemens & Halske and 40% to a subsidiary of I.T.&T.[14]

## *Broadcasting and Motion Pictures*

Radio broadcasting and motion pictures have been profitable offshoots from the electrical industry. Radio broadcasting of spoken words was initiated by Westinghouse Electric & Manufacturing Co. with reports on election returns in 1920. The news of Harding's election made a suitable beginning for the commercial use of this technique which draws its profits from advertising and has become an important channel of capitalist propaganda.

Although the air is crowded with stations, the most favorable wave lengths are held by the two nation-wide chains and a few local "independents" with strong financial backing. National Broadcasting Co. is owned by Radio Corp. of America. Its chains include stations owned by General Electric and Westinghouse. Columbia Broadcasting System which was under control of Paramount-Publix Corp. until 1932 is now controlled through stock ownership by a group of capitalists including Herbert Bayard Swope (brother of the president of General Electric), and representatives of Lehman Brothers and Brown Bros., Harriman & Co.

Both of these nation-wide chains have close technical coöperation with the American Telephone & Telegraph Co. which provides the private leased wires used in their coast-to-coast hook-ups. At other points also the nation-wide chains work together. For example, in Philadelphia a station

(KYW) operated as a unit of the NBC-WEAF chain is managed locally by two directors of the Columbia system who manage its Philadelphia station (WCAU).[15]

In spite of Edison's important part in the invention and development of motion-picture apparatus, the business of producing, distributing and showing motion pictures was built up independently of the electrical companies. But a new strong link between them was created by the development of pictures with sound. The most important American patents in this field are jointly controlled by Western Electric Co. (subsidiary of American Telephone & Telegraph Co.) and RCA Photophone Co. (subsidiary of Radio Corp. of America.*

William Fox, former head of Fox Film who was forced out of his motion picture companies by a banking ring, acquired originally the American rights to the Tri-Ergon (German) patents which are basic for the registering of sound on film. These are now held in Germany by Klangfilm which has a broad patent agreement with Western Electric and RCA Photophone. Fox's American Tri-Ergon Company was defeated in March, 1935, in a court fight for back royalties and damages which Fox maintains were due because Western Electric and RCA Photophone pirated the Tri-Ergon devices. The Supreme Court upheld the big corporations, reversing all lower courts by its decision. The tremendous cash value of a patent monopoly is shown from the $500 fee which a Western Electric subsidiary receives from its licensed producers of sound pictures for every reel of every picture produced on W.E. equipment.[16] From its organization on January 1, 1927, to the end of 1934, this Western Electric subsidiary (Electrical Research Products, Inc.—part of the telephone trust) paid back the $5,750,000 which had been spent in research and development and also paid $5,700,000 royalties to the parent company (A.T.&T.), $4,000,000 dividends to the intermediate company (Western Electric), and piled up $5,450,000 of undistributed profits in the treasury of Electrical Research Products, Inc.[17]

In 1930 a world patent pool in sound picture apparatus was set up by the German companies (AEG, Siemens & Halske, and Klangfilm), American Telephone & Telegraph Co. subsidiaries, and the chief motion picture producers in the United States and Germany. Under this agreement, producers in all countries may obtain licenses to produce pictures under both German and American patents. But for the manufacture and sale of sound apparatus the world is divided into three sections: countries reserved for the sale of apparatus made in the United States, countries reserved for the sale of German-made apparatus, and other countries, open to both German and American products on the basis of free competition.[18]

* Relations of A.T.&T., I.T.&T. and Radio Corp. illustrate the confusion within the strongholds of monopoly capitalism. A.T.&T. works in close alliance with Radio Corp. in the field of motion pictures, sound picture apparatus, and broadcasting. In the telephone field, A.T.&T. is closely tied up with I.T.&T. But at the same time, I.T.&T. and Radio Corp. are in sharp competition.

The motion-picture industry has long been highly organized for the benefit of the large producers. It has followed an aggressive policy and maintained a striking—and very profitable—supremacy for American pictures abroad, which has not yet been seriously weakened by the various quota schemes set up by European countries during the past seven years. The eight leading companies * are not only held together by their dependence on the Morgan sound apparatus monopoly. They are also interlocked by a network of long-term contracts and, some of them, by common financial connections. Apparently the hold of Morgan and Rockefeller interests in the motion-picture industry has been strengthened since the crisis.

Paramount-Publix (now Paramount Pictures, Inc.) had been backed by Kuhn, Loeb & Co. In the bankruptcy reorganization Kuhn, Loeb seems to have been pushed out while the Atlas Corp. (close to Morgan) and Lehman Bros. have stepped in. John E Otterson, who has left the telephone trust to become president of Paramount, apparently brings in a further indirect Morgan link.

Control of Radio-Keith-Orpheum, reorganizing under the Federal Bankruptcy Act, was sold by Radio Corp. of America to Atlas Corp. and Lehman Bros. This does not seem to involve a genuine shift in financial control. The Rockefeller minority interest in RKO continues through the direct holdings of RKO stock by Radio City.

In Twentieth Century-Fox Film Corp., Chase National Bank (Rockefeller) holds the largest block of stock and probably has control. Atlas Corp. has acquired a minority interest.[19]

Chase National Bank also has a strong interest in Loew's, Inc., of which Metro-Goldwyn-Mayer is a subsidiary. Hearst is tied in with M-G-M through joint interest in the M-G-M newsreel service. Hearst is also tied in with Warner Brothers.

Columbia Pictures Corp. is chiefly a California company and is controlled by three voting trustees: A. H. Giannini, San Francisco banker closely allied with Hearst, and two executives of the company.

Giannini has backed several of the smaller companies. He and Robert Lehman and two members of the Whitney family are now backing a new major company to develop technicolor productions.[20]

The old monopoly technique in the motion-picture industry which holds over from the days of silent pictures includes control by the big producers of leading "first-run" theaters and a uniform policy of allowing pictures to smaller "independent" theaters only after the big theaters are through with them. The block-booking system also makes it impossible for "independent" theaters to choose their programs. These policies were not seriously attacked under the NRA. The code for the motion-picture industry was drafted and administered by a small board on which men

* Paramount Pictures, Inc.; Loew's, Inc., which controls Metro-Goldwyn-Mayer; Twentieth Century-Fox Film Corp.; Radio-Keith-Orpheum Corp.; Warner Brothers Pictures, Inc.; Columbia Pictures Corp.; Universal Pictures Co., Inc.; and United Artists Corp.

openly or indirectly tied up with the big producers were in the majority.

Back of this monopoly technique peculiar to the motion-picture industry and greatly strengthening the power of the big producers is the newer power of the telephone trust through its control of sound picture apparatus.

## *The Electrical Industries As A Whole*

Monopoly control within the electrical industries is very greatly strengthened by the coöperation of the capitalist governments. Exclusive patent rights granted by governments and upheld by the courts play a major role in electrical manufacturing. Franchise monopolies granted by city governments play a major role in utilities.

Next in importance is the way in which the markets for the chief electrical products have been under the same control as their manufacture: "Heavy" electrical goods and the light and power companies which are their chief consumers; telephones and the telephone system. This has been especially profitable as the utilities of all kinds have (with government permission) exacted high monopoly prices for service.

"In the electrical industry the movement towards the formation of international concerns is quite exceptionally strong." This is the carefully considered opinion of a leading German capitalist economist, Robert Liefmann. In the international electrical monopolies we see concretely part of Morgan's tremendous stake in the survival of European capitalism. Morgan utility interests in Italy are defended by Mussolini's fascism. Morgan factories, telephones, and light and power companies in Spain which have had strong influence in Spanish affairs are threatened by the revolutionary awakening of Spanish workers. Revolutionary dangers threatening the electrical trust in Germany have been temporarily warded off by the brutal Hitler regime.

But the great electrical monopolies which help to unite American and European capitalists in their determination to destroy the workers' movement cannot remove the conflicts of national interest that cut across even the most profitable alliances. Already some strain is visible in the conflict between American claims on dividends and interest from the German companies and the German embargo on payments to owners outside of Germany. Competition between the German and American branches of the world combine in the limited open markets of the world was never so sharp as it is to-day. A new world war would tear apart some of the international alliances of the electric monopolies, but it could not destroy their separate sections. Each corporate group would continue to use the technical knowledge it has acquired from the laboratories of its present allies. Each would work feverishly in war production for war profits, helping to perfect the equipment of highly mechanized mass murder, while the movies and the radio broadcasters would be whipping up hatred with lies about the latest enemy.

CHAPTER XIII

# DU PONT LEADS IN CHEMICALS*

CHEMICALS and chemical processes enter into every industrial activity. The individual consumer rarely buys chemicals as such, and so does not realize that dyes, rayon, rubber, oil, paper, paint, textiles, and electric-refrigerators are dependent on the chemical industry for their development and indeed their existence. The commercial development of a chemical discovery often leads to the establishment of a new industry which is basically dependent on chemical processes, and frequently controlled by chemical companies.

## *War and Chemicals*

Another important role of this industry is in warfare, for peace-time chemical processes can be converted to the manufacture of explosives and gases within a short time. Judge Morris, U. S. Court, District of Delaware, said, "The same plant that converts the benzene and toluene, the anilin and the toluidin of the coal tar into flaming colors or into the pain-soothing or disease curing medicinals are [sic] ready to convert in wartime these crude products into the all powerful TNT, picric acid and similar weapons of war."[1]

In the last war parts of the Leverkusen plant of the I.G.Farbenindustrie were converted to military purposes in six weeks. It is said that virtually every new product developed by duPont utilizes as the primary ingredients the same chemicals which enter into the production of explosives.

In Japan the production capacity for nitrogen far exceeds its needs for nitrogen fertilizers, but it is nevertheless increasing its nitrogen plants because nitrogen is also an essential in explosives. The Chemical Foundation says: "The American manufacturers have been induced by the Government to spend over one hundred million dollars in plants to produce nitrogen and to-day we are able to produce our capacity in peace and war...."[2]

Bleaching powder, used as a disinfectant and deodorant in peacetime, is used in the production of the war gas chlorpicrin. Chlorine, phenol, sulphuric acid, ethylene, arsenic and bromine are used in the manufacture

* This chapter was written by Elsbeth E. Freudenthal.

of war gases, of which the most important are phosgene, chlorpicrin, and mustard gas. It is significant that the production capacity of chlorine in the United States has increased over 80%, or from about 200,000 tons in 1929 to approximately 365,000 tons in 1935.[3] The same products that are important for explosives are also used in industry—nitric and sulphuric acids, phenol, benzene, toluene and cellulose.

## *Monopoly and Production of Chemicals*

These chemical materials occur either in natural form (sulphur); as by-products of another industry or process (benzene and toluene from by-product coke); or they are made synthetically (solvents). When a material occurs in natural form and the supply is limited to known deposits monopoly is strengthened, sometimes with the active participation of a government. The former Japanese monopoly on camphor (important to the moving picture industry and high explosives) was used for rigid control of price. The sulphur supply of the world comes largely (approximately 85%, according to the *Wall Street Journal*, February 25, 1935) from two American companies—Texas Gulf Sulphur Co. (definitely a Morgan company) and Freeport Sulphur Co. (Rockefeller with minor indirect Morgan interest). Eighty to ninety per cent of the world's known commercial supply of nickel is controlled by International Nickel Company of Canada, Ltd., of whose production 12% is used by chemical companies. This company is definitely controlled by Imperial Chemical Industries, E.I. duPont de Nemours & Co., Morgan and Hayden, Stone.

Before the war potash was practically a German monopoly, and borax was an American monopoly controlled by English capital. These last two materials are not important in warfare.

Many important commodities occur as by-products of a primary process. In the chemical processes basic to the dye industry, for example, a ton of coal yields 140 pounds of coal tar. This yields five crudes (benzene, toluene, anthracene, phenol and naphthalene) which give 300 intermediates, from which are obtained 1,000 dyestuffs; and these yield 5,000 brands of dyes. These same coal-tar crudes also yield rubber accelerators, camphor substitutes, germicides, insecticides and flotation compounds for the concentration of ores. The intermediates also make possible over four-score medicinal and photographic chemicals.[4]

The secondary development from primary processes is the reason for the increasing vertical organization of chemical companies. I.G.Farbenindustrie, A.G., in Germany has close relations with the steel industry, and has its own brown-coal deposits. In America the relationships between chemical companies and those supplying raw materials (for example, steel and mining companies which manufacture by-product coke, and those selling corn for alcohols) are usually through inter-locking directorates and mutual stock ownership rather than complete ownership of sources.

Monopolies, based on control of natural resources or important raw

materials, are peculiarly subject to attack through the development of a synthetic or substitute product. The nitrogen industry illustrates this. Up to the war Chilean nitrates were the only source of nitrogen (used in explosives and fertilizers). The war was prolonged by the German discovery of a process for fixation of nitrogen from air, and after the war both synthetic and by-product nitrogen were so much cheaper than that obtained from Chilean nitrates that by 1931 91% of the total nitrogen in the world was manufactured. Ethylene, important in war gases, was formerly produced from alcohol obtained by fermentation of molasses, corn or potatoes; it is now being synthetically produced by a subsidiary of Union Carbide and Carbon Company. Camphor is now made synthetically. E.I. duPont de Nemours was recently awarded a medal by the American Institute of Chemical Engineers for producing it. The end of the Japanese camphor monopoly is at hand.

As the monopoly of raw materials breaks down, a new monopoly based on technique takes its place. Information about new processes is exchanged by large companies, whose agreements frequently cover secret as well as patented inventions. The chemical industry was highly international even before the World War, when there were, it is estimated, nineteen important international agreements in force. Although the war stopped active coöperation for a time, erstwhile enemies soon coöperated again, and by now new agreements have replaced the old. The new agreements are more effective because the important companies have consolidated their world-wide power through amalgamations and extension of interests.

## *International Agreements and Large Companies*

The following important companies dominate the chemical industry of the world: Imperial Chemical Industries, Ltd., in England; I.G.Farbenindustrie, A.G., in Germany; the Solvay group of Belgium; Etablissements Kuhlmann and L'Air Liquide of France; Montecatini Societa Generale per l'Industria Mineraria e Agricola, of Italy; and in the United States, Allied Chemical and Dye Corp. and E.I. duPont de Nemours & Co.

Many of these companies have financial connections with each other or with similar banking interests, or operate jointly-owned subsidiaries. Through international cartels they regulate prices and control production.

The International Borax Cartel has been English-controlled since 1899, but new deposits in the United States (still the world's chief source of supply) and new processes may soon change the character of this monopoly.[5] Borax is used largely for medicinal purposes.

All large chemical companies are interested in rayon even though it has developed to such an extent that it is a large industry. Although many explosives and chemicals factories were turned over to the manufacture of artificial silk after the war, there is now only one relatively unimportant rayon process that might be reversed and used to manufacture war prod-

ucts. In the rayon industry the maze of understandings, patent agreements, interlocking directorates and stock holdings includes important companies in all countries.

The international dye agreement, originally between I.G.Farbenindustrie and Kuhlmann of France, by 1929 covered 61% of world dye production and 89% of world dye trade, and now includes English, Swiss, Italian, Spanish and Polish producers as well. Dye factories can turn out war gases in a short time.

In explosives duPont and other American powder producers had a price agreement as far back as 1872, and they entered the international powder trust in 1897 when European producers threatened to enter the American field. This agreement, although interrupted by the World War, was firmly reëstablished, and now covers the world mainly under the influence of I.G.Farbenindustrie, Imperial Chemical Industries, and duPont.[6]

International agreements or cartels exist in the magnesium and aluminum industries, and in respect to anilines. In nitrogen there have been many attempts at world regulation. In July, 1934, a world cartel, under a one-year agreement, was formed by Chilean producers (largely Guggenheim interests) and European producers to avoid further price wars. This is the last hope of the Chilean producers to save their industry from complete ruin by the synthetic and by-product manufacturers.*

However, numerous as these agreements are, they do not cover all products and all places. Particularly in industrially undeveloped areas like South America and the Orient these large companies are split into hostile groups of two or three companies. In various products also there is competition. For instance, by tracing the directorates of domestic and foreign allied and subsidiary companies, there seems to be a Rockefeller-Ford-IG-Firestone interest in rubber, opposed to which there seems to be a Morgan-duPont-Imperial Chemical Industries-Dunlop group in rubber. Nevertheless, Imperial Chemicals, duPont and I. G. Farbenindustrie, competing in other fields, are all in the explosives cartel.

## *European Companies and American Connections*

Although the chemical industry received a great impetus from the World War, it was firmly established in the nineteenth century, and trends toward absolute monopolies were present before 1914. In 1916 the

* It is reported that this International Nitrate Cartel Pact between Chile and the synthetic producers has been resumed for three years. The state to which Chile has been reduced is shown by the newspaper report of this pact: "The new pact follows negotiations in Europe between synthetic producers since May last. (1935-*E.E.F.*) In July, agreement was reached, and the discussions were transferred to London, where the question of Chile's participation was examined." However, Chile, having gained permission to attend, was probably given an increased export quota. (*The Financial News*, London, August 10, 1935.)

German chemical companies formed a cartel. Six of these companies, some dating back to the 1850's, merged in 1925 into I.G.Farbenindustrie. This is more powerful in Germany than Imperial Chemical Industries in England or duPont in America. It is superior to the German steel trust, although there are industrial links between the two, and IG is said to own many shares of the steel trust. IG is completely integrated, owning many of its raw material sources, including coal, and manufacturing on a large scale every chemical product used in industry and agriculture. In the last few years IG has pursued a policy of extending its international contacts, either through partially and wholly-owned subsidiaries, or by indirect relations worked through bankers, often in smaller or "neutral" countries. The American IG is controlled through the Swiss IG Chemie, the largest company in Switzerland.

American IG has at least a trade relationship with duPont, but the strongest American connections are with Ford and Rockefeller—W. C. Teagle of Standard Oil of New Jersey, and Edsel Ford are directors of American IG. Furthermore, IG owns at least 15% of Ford's German subsidiary company. IG has a contract with National Lead Co. (usually considered a Rockefeller company), and is National Lead's licensee for production of titanium white in Germany. Standard Oil of New Jersey and IG have a world-wide pool for their hydrogenation of coal and oil process. In the company formed to handle these patents outside of the United States and Germany IG and Imperial Chemical Industries have one director each, and Standard Oil of New Jersey and Royal Dutch are in control. IG also has connections with Mellon, owning two subsidiaries jointly with Aluminum Company of America. Thus, IG has contacts with all the most important financial groups in this country, although predominantly with Rockefeller and Ford.

In England Imperial Chemical Industries, Ltd., was formed in 1926 as a merger of several old-established chemical companies. Its formation was largely an effort to insure British chemical independence—in short, it was an answer to the formation of I.G.Farbenindustrie. Imperial Chemicals is now predominant in the British chemical industry and interested in many British industries with world-wide ramifications. DuPont and Imperial Chemicals have very close relationships. The chairman of Imperial Chemicals is a director of General Motors, and Imperial Chemicals' investments include the stocks of General Motors, and duPont, as well as Allied Chemical and Dye and I.G. Farbenindustrie. Imperial Chemicals and duPont have merged their activities in Canada and Argentina, and they have agreements covering the exchange of patents, mutual use of agencies in foreign countries, and the division of the world for trading purposes. Imperial Chemicals has an indirect relationship with Rockefeller, having formed in 1928 a joint finance company with the Chase National Bank, which Rockefeller has controlled since 1930; but this is less important than its relationship with duPont.

The Solvay group of Belgium starting in the chemical industry in the 19th century, and still owning important patents in the soda ash field, has

extended its financial interests to industries spread over the world, and is important in international chemical agreements. The Mutuelle Solvay, parent company, is said to be entirely owned by the Solvay family, and has ceased to publish reports. Since the subsidiaries of the Mutuelle Solvay are not so closely held, there is no clear dividing line between the investments of the family and the companies. Solvay interests penetrate throughout Europe and in every industry, and reach the United States through Allied Chemical and Dye Corp. They own 22.5% of Allied's common stock through an American company, on which there is a Solvay as director, and Allied itself has large stock holdings. The Solvay group is interested in all Belgian industries and the most important Belgian banks; it controls the German soda ash industry, and has a virtual monopoly of soda in Italy. It has close connections with Aussig, an Austrian company with subsidiaries in Germany, France and England on which the largest banks in Europe are represented.

In Italy there are no direct American connections, although the Sicilian sulphur producers seem to be at the mercy of the American producers in respect to prices. The chemical industry is dominated by Montecatini, which has a close relationship with I.G.Farbenindustrie.

L'Air Liquide (Procédés Georges Claude) in France produces nitrogen by the Claude process, of which Air Reduction Co. and duPont are among the patentees. Etab. Kuhlmann, the other important French chemical company, also has subsidiaries in many countries, but not in America, although it is said to be connected with Dillon, Read in New York.[7]

These are the most important chemical groups in the world as far as international influence is concerned. Japan, for instance, is just now attaining chemical self-sufficiency, and has not yet reached the stage where it is powerful enough to extend into other countries. The Japanese government, faced with the fact that Japan proper has few of the raw materials needed in this industry, subsidized various branches of the industry. Its imperialist expansion has brought under Japanese domination territories where there are more natural resources. Furthermore, the Japanese companies have bought licenses and patents from important Western chemical companies.

## *The Three Large American Companies*

The European chemical industry was established long before American capital had developed the American chemical industry to any extent. The World War was directly responsible for the growth in the United States of the chemical industry. The Chemical Foundation, which bought over 4,500 German patents seized during the War by the Alien Property Custodian, paying that department $250,000, says "The chemical industry . . . is all that the United States got out of the War."[8] Large chemical companies bought the preferred stock of the Foundation, and administered the NRA Code through it. The Code Authority was composed of duPont and Union

Carbide and Carbon men, and representatives of companies showing Mellon, Hayden, Stone and some Rockefeller influence. On the list published in the *New York Times* on November 6, 1934, there were no Allied Chemical and Dye men, an important omission in view of Allied's connection with Solvay of Belgium.

Even though duPont was active in one corporate form or another as far back as 1802, and it was split by the United States Government under the Sherman Anti-Trust Law in 1913, its real development came from the World War. The importance of its war business was acknowledged by the company's vice-president, Col. E. G. Bruckner, when he said in 1918, "The total value of all our contracts for *military business* to date is: $1,011,000,000. Compared with the year in which the company did the largest amount of business prior to the War, when our total sales *of all commodities* aggregated a little over $36,000,000 this represents nearly 26 years' business."[9] The duPont company, in a report which says: "... the duPont Company does not want war and has vastly more to gain from peace," also says in this same report: "The enormous expansion of the duPont Company's activities during the War and the successful execution of its varied undertakings constitute a story probably unique in the whole history of industry. . . ."[10] The dividends paid to common stockholders of the company rose from about $12,000,000 in the four years from 1911 to 1914, to over $115,000,000 in the war years 1915 to 1918. These do not include stock dividends (the capitalization of profits) in either period.

E. I. duPont de Nemours & Co. is of prime importance in the chemical industry and its resources are so large that it has developed into an important unit of finance capital, dominating banking and politics in Delaware and probably controlling one of the smaller banks (Empire Trust Co.) in New York City. Its interests extend into many other industries, its investments (excluding General Motors) contributing 13% of income in 1933. Although the duPont company has had little open dependence upon Morgan, interests in many companies which include duPont and Morgan men indicate that a close relation exists. Through ownership of about 23% of General Motors stock duPont controls that company, which has a strong Morgan interest. DuPont is said to control United States Rubber Co.

In the chemicals field duPont, although not seeming to own its own coal mines or other sources of raw materials, is otherwise completely integrated, and its recent acquisitions of Remington Arms Co. and Grasselli Chemical Co. have further consolidated its position. Atlas Powder Co. and Hercules Powder Co. were split off from duPont in 1913, but each has foreign subsidiaries jointly owned with duPont, and their directorates show a definite duPont group. These three companies are the largest explosives manufacturers in the United States.

Union Carbide and Carbon Corp., formed in 1917 of several older companies, has no obvious banking connections, except with Central Hanover Bank and Trust Co., and its directors show indirect Morgan and Mellon influences. We have already noted the close connections between subsidiaries of Union Carbide and Mellon companies. (See Chapter IV, page

68.) It has a large business in electric furnace ferr-alloys and cutting and welding equipment not directly connected with chemicals. In fact its subsidiary, the Electro Metallurgical Co., is one of the largest producers of certain steel alloys.[11] It is also important in synthetic organic chemicals—acetone (a solvent used in production of smokeless powder and rayon); alcohols, some of which are used as solvents in explosives and the lacquer industry; and special charcoals used in gas masks. This company, although it has world-wide selling and distributing companies, is less important as yet in the international field than duPont and Allied Chemical and Dye.

Allied Chemical and Dye Corp. is closely connected with Solvay et Cie of Belgium, since 22% of its stock is held by a wholly-owned subsidiary of Solvay. Allied Chemical is the most secretive of chemical companies, and its large investment portfolio is said to include stocks of five companies related either as consumers or suppliers of raw materials. Two of these companies, Texas Gulf Sulphur and U. S. Steel Corp., are definitely Morgan, and Allied's interest may be a third group entering in the struggle for control of the chemical industry, the others being duPont-Morgan-Imperial Chemicals, and IG-Ford-Rockefeller.

Allied Chemical is very important in the heavy chemicals field, particularly in alkalis, which are important in explosives (picric acid), and in gases (chlorine). Allied Chemical has a new electrolytic process for the production of caustic soda and chlorine, and its Hopewell plant has made synthetic ammonia one of the cheapest alkalis. It is also the country's leading manufacturer of coal-tar derivatives. Thus this company is very important chemically and financially.

DuPont, Union Carbide and Carbon, and Allied Chemical and Dye cover the entire chemical industry, and although some of their activities overlap, they are in three distinct fields. DuPont is chiefly concerned with the production of powder and explosives, rayon and cellophane, dyestuffs, synthetic plastics and ammonia and nitrogen products. Allied Chemical's main activity is in synthetic ammonia and other nitrogen products, acids, alkalis, coal-tar products and dyestuffs. Union Carbide's main field is altogether different, including electrochemical and metallurgical products, but it has also a wide range of synthetic organic chemicals. These three companies dominate the American chemical industry, accounting for 66% of the total tangible assets of the industry.[12]

## *Other American Chemical Companies*

Nevertheless, there are many smaller chemical companies in the United States. They are important because they manufacture one or two chemicals, which although essential are not needed in large quantities; or they may have developed a new process; or they may still own war patents. Among these smaller companies there is usually a link with one of the big three chemical companies, or with some other large industrial interest.

The following lists show: 1) Some of the smaller American com-

panies, their most important activities, industrial connections, and the direct or indirect financial relations. 2) Smaller American companies with foreign connections. 3) Some small but important companies that are either privately owned, or have unknown financial and industrial connections.

1. SMALLER AMERICAN COMPANIES, CHIEF ACTIVITIES, AND CONNECTIONS.

| *Company* | *Chief activity* | *Industrial and/or financial connection* |
|---|---|---|
| Air Reduction Co.<br>U. S. Industrial Alcohol Corp.<br>Vanadium Corp. of America | Oxygen, nitrogen, solvents, etc. | Interlocking directors and some mutual stock holdings between these three companies.<br>Slight duPont & Rockefeller influence. |
| American Agricultural Chemical Co. | Phosphates & fertilizers | Morgan; Hayden, Stone & Co. and others. |
| American Commercial Alcohol Corp. | Alcohols | Slight duPont trace. |
| American Cyanamid Co. | Heavy and other chemicals—important in war | Strong Mellon influence. |
| Baker (J. T.) Chemical Co. | Chemicals for laboratories | Subsidiary owned jointly with Pennsylvania Salt—otherwise independent. |
| Commercial Solvents Corp. | Alcohols, acetone, and derivatives | Indirect Morgan and Rockefeller. Industrial connection with Corn Products Refining Co. |
| Dow Chemical Co. | Bromine extraction, light synthetic metals. Important in war. | Cleveland Trust Co. Industrial indirect connection with Gen. Motors and Standard Oil (N.J.) |
| Electro Bleaching Gas Co.—owning Niagara Alkali Co. | Chlorine, caustic potash, etc.—important in war | Possible Mellon and Morgan interests. |
| Mathieson Alkali Works, Inc. | Alkalis, etc. | Strong Hayden, Stone & Co., also indirect Mellon and Rockefeller. |
| Merck & Co. | Pharmaceuticals—some war chemicals | Lehman Bros., Goldman, Sachs. |
| Monsanto Chemical Co. | Coal-tar products, fine chemicals, medicinals, etc. | Local banking interests. |
| Pennsylvania Salt Manufacturing Co. | Heavy and other chemicals, important in war | Indirect Morgan and Rockefeller. |

| *Company* | *Chief Activity* | *Industrial and/or financial connection* |
|---|---|---|
| Westvaco Chlorine Products Corp.—owned at least 1/3 by United Chemicals, Inc. | Chlorine, etc.—important in war | Indirect Morgan; industrial connection with Union Carbide. |
| United Carbon Co. | Accounts for 27% of U. S. consumption of carbon black | Connections with Canadian Industries (duPont and Imperial Chemical Industries). |

2. Smaller American companies with foreign connections.

| *Company* | *Activity* | *Foreign connection* |
|---|---|---|
| American Cyanamid Co. | See list (1) | Large Canadian plant. |
| American Potash and Chemical Corp. | Potash products and fertilizers | Said to be subsidiary of an English company. Shows Seligman and Lewisohn influence. |
| Commercial Solvents Corp. | See list (1) | Plants in England, Puerto Rico and Cuba. |
| International Agricultural Corp. | Fertilizers and acids | Strong Morgan influence. Connected with international potash cartel through 50% ownership of a German potash mine. |
| Monsanto Chemical Co. | See list (1) | Has important English subsidiary. |
| Pacific Borax Co.—owning U.S. Potash Co. of New Mexico | Borax | Owned by Borax Consolidated, Ltd. |
| Pennsylvania Salt Manufacturing Co. | See list (1) | Contract with I.G.Farbenindustrie. |
| United Carbon Co. | See list (1) | Canadian subsidiary; 50% of company's sales are foreign. |

3. Seemingly independent or private American companies.

| *Company* | *Activity* |
|---|---|
| Diamond Alkali Co. | Chlorine and alkalis. |
| Doe & Ingalls, Inc. | Fine, and war chemicals. |

| *Company* | *Activity* |
|---|---|
| Federal Laboratories, Inc. | Tear and other combat gases. See Chapter XV for this company. |
| Hooker Electrochemical Co. | Alkalis. |
| Mallinckrodt Chemical Works | Fine, and war chemicals. |
| Michigan Alkali Co. | Chlorine and alkalis. |

Although there are numerous smaller companies, the tendency is toward increasing financial control, hidden because of the anti-trust laws and often confused by warring financial groups. Furthermore, there is the attempt at penetration into the chemical industry of each country by the large companies of other countries. Opposed to the attempts of each nation to be self-sufficient is the increasing internationalization of the large chemical companies through trade agreements and financial relationships.

Chemical companies profit indirectly from any industrial activity, since their products are used in all industry. But the industry stands to profit directly from wartime demands for chemicals. Lammot duPont, president of E. I. duPont de Nemours & Co., said, "In the increasing mechanization of modern warfare, new chemical problems would be encountered and new adaptations of chemical materials would be required. The large research organizations of the chemical industry would be invaluable in the study and solution of problems which would inevitably arise. There can be no possible substitute for a strong chemical industry in the manufacture of materials so indispensable for waging war. In this respect the country has been immeasurably strengthened in its defense."[13]

The Chemical Foundation says, "Every chemical plant is a potential arsenal, not only for what it is producing to-day, but for what it may produce to-morrow."[14] Chemicals now play a major role in warfare as in peace; but they must be supplemented by a developed air force if the army is to surprise, poison and ruin the enemy. In the next chapter, therefore, we consider the aviation industry.

## CHAPTER XIV

# AVIATION, A WAR INDUSTRY*

Any commercial plane can be used for military purposes.[1] This is the key-note of the aviation industry, which although small, is protected and nourished by governments, and dominated and controlled by financiers. It takes days and often weeks to convert ships to war-time use, but there is no such lag in airplanes, and the effort of each nation in recent years has been to increase its air force, air routes, aircraft exports—in short, its air importance. Because of the military importance of air lines and manufacturing companies, all governments in one way or another subsidize this industry.**

Although flying was a well-established industry in Europe by 1912, the United States had developed practically no military aircraft of its own all through the war, and to a large extent copied French and British planes.[2] Even though American military aircraft too often turned out to be "burning coffins," the so-called "pioneers" of the industry (Martin, Boeing, Hoyt, Loening, and Rentschler) were very active during the war.

## *A Subsidized Industry*

From 1920 to 1925 the U. S. Post Office Department flew the mail itself. In 1925 the subsidizing of air companies started with the passage of the Kelly Bill which permitted the Postmaster General to contract for air delivery. This gave an impetus to the industry, but the McNary-Watres Act of 1930 was an outright gift. At the "spoils conference" which followed in May, 1930, there was no competitive bidding, and certain of the air lines were instructed to draw up a new air map of the states. The basis of payment was changed from the amount of mail carried to the amount of space provided for air mail and the length of the route, regardless of the number of pounds carried. Thus it was a simple matter to get a subsidy for a line which was unwarranted by the amount of mail

* This chapter was written by Elsbeth E. Freudenthal.

** The importance of this industry in war is shown by President Roosevelt's list of war implements, the makers of which must register under Section 2 of the Neutrality Act. The Act includes only articles of indisputably military use, and it is therefore doubly significant that every type of airplane and airship, together with their engines, parts, etc., is included. (See *New York Times*, Sept. 29, 1935.)

carried.[3] The importance of this subsidy is shown by the fact that in 1932, for instance, the air mail subsidy amounted to 76% of the total revenue of the four leading transport companies.[4]

Although they were not subsidized directly, the manufacturers also depended largely on the government. It is estimated that in 1933 their net revenue from sales to the Army and Navy was $16,000,000; from exports, $9,200,000; and from commercial orders, $27,500,000. Of the last figure, however, $25,000,000 came from associated companies which ordered planes and equipment with which to operate mail routes, and so this item can also be attributed to the government.[5] There were and still are four main manufacturing companies. Curtiss-Wright Corp. and United Aircraft and Transport Corp. together got a large majority of government orders, and next in importance were Martin Co. and Douglas Aircraft Co. "One-fourth of the whole year's Army- and Navy-equipment appropriation (i.e., for aviation, 1933—*E.E.F.*) went to Curtiss-Wright. . ."[6] Pratt & Whitney (of United Aircraft) made a 50% profit on Navy contracts in the first nine months of 1930.[7] The same company in 1930 made a profit of 81.6% on one Army order, and 38.3% on another.

In 1934 the Air Mail Act made a gesture towards freeing the industry from monopoly control by ordering that transportation companies be separated from manufacturing companies. Under the new Air Mail Act of 1935, sometimes called the McKellar-Mead Bill, which was signed in August, 1935, supervision of rates is directly placed in the hands of the Interstate Commerce Commission. The increased rates were made retroactive for March to June, 1935, and gave the airmail carriers an additional $400,000 for that period. The average compensation is still only 29 cents a mile, compared with 28.5 cents after the 1934 Air Mail Act,[8] but the maximum is up to 35.1 cents a mile.[9]

Before the 1934 investigation four big air lines got about 90% of the total pay and handled 93% of the pound-miles.[10] These four lines are 1) United Air Lines Transport; 2) American Airlines (owned by Aviation Corp.); 3) North American, which owns Eastern Air Lines; and 4) Transcontinental and Western Air, Inc. Since the 1935 Air Mail Act their pay has dropped to 73.4% of the total, but they still handle 90.6% of all pound-miles.[11]

Many reorganizations have resulted from the order separating manufacturing and transportation companies. The net result is that practically the same financial groups are in control of the industry.

Army and Navy contracts are still handed to the same manufacturing companies.* Because these are on a lower profit margin, and be-

* Standard Trade and Securities, February 27, 1935, reported that engine business continues to be divided between Curtiss-Wright and United Aircraft (now divided into two companies). Army plane orders are divided between Martin (bombers), and Douglas Aircraft and its affiliate, Northrop (observation and attack planes), and Consolidated Aircraft (pursuits). Since Consolidated Aircraft is a comparatively small company, it has not been discussed in this section. There are

cause in the last year or so production capacity has been outstripping domestic demand, the manufacturing companies have cultivated the export field intensively. Quite apart from the number of engines sold to foreign countries, the number of planes exported increased from 140 in 1931 to 407 in 1933 and 460 in the first ten months of 1934. The Nanking Government, waging war against the Red Army of China, was the largest single purchaser of planes in 1933 and 1934. Foreign sales of planes and engines in 1934 rose to such a degree that they accounted for about 40% of production.[12]

## Financial Groupings

The aviation industry in the United States depends on the government for the large part of its revenue, but it is owned and run by bankers and important industrial groups. It began to develop as a large industry in 1927. Up to that time it had been to a large extent a subsidiary activity of the automobile companies, and the main business of small independent and experimental companies. Ford, General Motors, Packard and a few other automobile companies had interests in this field, and individuals like Fokker had their own companies. In 1927 the value of the subsidies authorized by the Kelly Bill of 1925 began to be appreciated, and finally war-time stocks were liquidated. Lindbergh's spectacular trans-Atlantic flight in this year concentrated public interest in aviation. The time was ripe for the bankers. In 1927-28 the duPont family invested in an aircraft company, and in 1928 and early 1929 occurred the huge aviation mergers which over-capitalized the industry to such an extent that total corporate assets rose from $29,000,000 in 1925 to $410,000,000 in 1929.[13]

Transcontinental Air Transport, Inc. (now dissolved), was formed by the Pennsylvania Railroad, the Curtiss Aeroplane and Motor Co., Inc., and Chief Engineer Mayo of Ford Motor Co. Curtiss-Wright Corp. was a merger of the two oldest companies in the industry under Hayden, Stone. Lehman Bros. formed the Aviation Corp. and, with the Harriman interests, controlled it until 1933. The United Aircraft and Transport Corp. merger was arranged by the National City Bank. According to the testimony of J. P. Ripley, the transaction brought in "$6,000,000 of profit to something like $18,000,000 of money put up by the National City Company."[14] Individual bankers and air company directors made similar large profits on air stocks. But in spite of these profits, and the profits of some companies, the industry has not yet recovered from this over-capitalization.

Mergers and reorganizations confuse the picture somewhat, but the positions of the companies have not been materially altered. In 1935, air

indeed many small companies in this field, such as Grumman Airplane Co., a private company. They receive occasional large government orders, but they do not seem to challenge the monopolistic position of the large companies.

routes and manufacture were in the hands of a few large companies and their subsidiaries, all interconnected by cross-directorships and an endless chain of mutual stock ownership. Battles for financial control also occur, but the same financial groups continue within the industry. Reports of changing directorates and sales of stock interest are merely indications of jockeying for position by rival financial interests.

The principal financial groups represented are Morgan and duPont through General Motors, G. M-P. Murphy, and National City Bank. Although G. M-P. Murphy in general is less powerful than the other groups his influence in the aviation industry seems to be greater.

Morgan and duPont, through General Motors, are in control of the *North American* group and of *Bendix Aviation Corporation* and its subsidiaries. Mellon interests are indirectly represented on some of these companies, since they are vitally interested in air companies as large consumers of aluminum—10% of the cost of a plane being the aluminum.[15] General Motors' influence is increasing in this industry, and its group is the most diversified. Its many manufacturing companies constitute the majority of the group, but it also includes Eastern Air Lines, the fourth largest transport company in the United States.

*United Aircraft and Transport Corp.*, the most highly integrated group in the industry, has been split into three companies in accordance with the new Act. The National City Bank, under whose guidance the old U.A.&T. was formed, is strongly represented on two of the three new companies. Furthermore, since the shares of the three new companies were distributed to the shareholders of the old U.A.&T., the three new companies have identical ownership, for the present at least. The distribution of the shares of the new companies for one share held of the old U.A.&T. indicates the relative importance of the new companies:

United Aircraft Corp.—1 share.
United Air Lines Transport Corp.—½ share (voting trust certificate).
Boeing Airplane Co.—¼ share.

*United Aircraft Corp.*, the new Eastern manufacturing division of this group, includes Pratt & Whitney Aircraft Co., one of the country's two principal engine manufacturers; Hamilton Standard Propellor Corp., the world's largest metal propellor company; Chance Vought Corp., whose planes are standard Navy equipment; and Sikorsky Aviation Corp., amphibian manufacturer.[16] G. M-P. Murphy and Ford are represented on this company, as well as strong representation of the National City Bank.

*United Air Lines Transport Corp.*, the transport company, carries 42% of all pound-miles in the United States.[17] One of the three trustees (all shares are held in a voting trust until July, 1936) represents the National City Bank.

*Boeing Airplane Co.*, the Western manufacturing division, is the smallest of the three companies. Nevertheless, it is among the foremost plane and equipment producers in the world in military as well as commercial aircraft. It manufactures pursuit and fighting planes, and recently developed a bomber (equipped with Pratt & Whitney Hornet engines) that

set a new world's record for speed and cruising range.[18] Its subsidiary, Stearman Aircraft Co., manufactures parts and equipment.

Cord and Manning, of Cord and Auburn Automobile companies, won control of *Aviation Corp.* from the Lehman-Harriman interests after an intense stock battle in December, 1932. Aviation Corp. ranks with the North American (General Motors) and United Air Lines groups in transportation. Cord interests control several aviation manufacturing companies as well, making this a third integrated group.

*Curtiss-Wright Corp.* is one of the world's largest builders of planes and engines; it is engaged in every type of aircraft activity except actual air transport. This importance means of course that it is a military plane producer, and in fact about 80% of its sales are military. There are several traces of Hayden, Stone influence in this company, but the preponderant interests are North American. These interests come through the ownership by Sperry Corp. (one of the North American group) of a large block of this company's stock, as well as the fact that Sperry and other North American companies have several important cross-directors with Curtiss-Wright.

*Glenn L. Martin Co.*, manufacturer of speedy bombing planes, was the only important "independent" in the industry, but it was recently reorganized under the amended Bankruptcy Act, so that it is now practically controlled by other aviation companies. An issue of stock was offered by Otis & Co. in April, 1934, and G. M-P. Murphy is represented on the board.

*Douglas Aircraft Corp.*, the other important military plane producer, producing only on order, and selling largely to governments, U.S. and foreign, is 25% owned by a North American company.

*Pan-American Airways Corp.*, the chief foreign airline of the country, has routes throughout South and Central America, as well as to the Orient. Its route-mileage in 1934 amounted to 32,552, or more than the total domestic mail route-mileage.[19] This company is so valuable that it is not controlled by one group, but many aviation companies are represented on its board, and its stock is held by a number of financial interests. In view of its imperialistic importance, it is not surprising to note that this company has been particularly favored by the government, receiving much higher pay per mile than domestic companies, as well as the lion's share of the foreign air mail subsidy, which is only slightly less than that for domestic mail.

The following list shows cross-directors of banks and aviation companies. United Aircraft Corp. is connected with National City Bank through its director, F. B. Rentschler, brother of G. S. Rentschler of the National City Bank. Since, with this exception, only direct connections have been considered, the following companies are not on this list: Aviation Corp. (clearly under the control of Cord and his group); Boeing Airplane Co. (one of the old U.A.&T. group); North American Aviation, affiliated with General Motors; and Douglas, closely connected with the North American group.

| *Aviation Companies* | *Financial Interests* |
|---|---|
| Curtiss-Wright Corp. | Girard Trust Co.<br>Manufacturers Trust Co. |
| Glenn L. Martin Co. | G. M-P. Murphy. |
| National Aviation Corp.<br>(financial and investing co.) | Bankers Trust Co.<br>Hayden, Stone Co.<br>G. M-P. Murphy |
| Pacific Zeppelin Transport Co. | G. M-P. Murphy |
| Pan American Airways Corp. | Bankers Trust Co.<br>Guaranty Trust Co.<br>Harriman interests<br>Lehman Bros.<br>Mellon interests<br>G. M-P. Murphy<br>National City Bank |
| Transcont. & Western Air, Inc. | Lehman Bros. |
| United Air Lines Transport Corp. | National City Bank |
| United Aircraft Corp. | Harriman interests<br>G. M-P. Murphy<br>National City Bank |

Not only are the aviation companies connected through cross-directors, as we have said, and through mutual holding of stock, but they are members of the Aeronautical Chamber of Commerce and the Manufacturers' Aircraft Association. The Code was administered through the former, of which James Roosevelt is a vice-president. The Manufacturers' Aircraft Association is a trade body which administers the cross-licensing agreement drawn up in 1917. This agreement, similar to the one in operation in the motor car industry, provides that hundreds of patents are available to the members. When it was first formed, the Association was attacked as a "trust," particularly when it was revealed that the $200 royalty on each plane paid by the manufacturer to the association was in reality being handed on to the Army and Navy to pay as part of the price of the plane. The terms of the agreement were subsequently toned down, but the Association continues to hold all the essential patents for the use of its members.[20]

All of the manufacturing companies receive military orders. 80% of Douglas' sales since organization have been to the U. S. Government. Sperry Corp. (manufacturer of gyroscopes and other products, as well as anti-aircraft mechanisms), General Aviation (builder of planes) and others in the General Motors group benefit from military sales. The manu-

facturing companies of the United Aircraft and Transport group (National City Bank) got one-third of all Army and Navy aviation expenditures in 1933.[21] Military orders have accounted for 80% of the aggregate sales of Curtiss-Wright (General Motors, Hayden, Stone and other interests).

## *Foreign Links and Activities*

The General Motors-Morgan influence extends to other countries. The Chairman of Imperial Airways (England) is also the chairman of Dunlop Tire and Rubber Co., Ltd., closely associated with Imperial Chemical Industries and E. I. duPont de Nemours & Co. Canadian Airways, the only transport company in Canada, has several directors identified with Morgan companies, and one of these is also connected with Canadian Vickers (armament company).

A. H. G. Fokker, whose former company was the nucleus around which General Motors formed its aviation interests, announced in 1931 the formation of an International Fokker Company. This includes the Dutch Fokker Co., whose military and commercial aircraft are used throughout the world. Moreover, in 1934 Fokker had all European manufacturing rights to Douglas airliners, and in 1935 became associated with an English manufacturing company.

The National City Bank also extended its aviation interests in the foreign field, when in 1929 it formed the International Zeppelin Corp. to manufacture under rights obtained from the German Zeppelin Co. The Goodyear Tire and Rubber Co., which had obtained these rights, coöperated with the National City Bank in the formation of this company, as did also Aluminum Co. and United Aircraft and Transport.[22]

Besides these corporate connections there are also many international cross-licensing and trade agreements. The efforts made by all countries to build superior air forces naturally bring revenue to the companies controlling the licenses under which the planes are built. Governments as well as private companies are licensees. Fokker has licensed the Swedish, Danish, Norwegian, Italian, Polish and Swiss governments to build one or more of its planes. It has also licensed such companies as Avia of Prague, owned by Skoda, the armament company, which is in turn owned by Schneider, the armament company of France. The *Wall Street Journal* (November 3, 1935) reports "Concentration of the Dutch aircraft industry under Fokker and government control is being prepared."

The chief competitors of the United States for supremacy in the air are Great Britain, Germany, France, Italy and Japan. Poland and Czechoslovakia rank high among the secondary air powers. Established air-routes, with which a considerable corps of pilots is thoroughly familiar, are a vital part of the imperialist machine for the control of colonies and dependent countries. Of course immediate trustworthy air transport will be indispensable in the next world war.

In China the interests of the several imperialist powers are in sharp competition, but they are all eager to help the Nanking government as well as to extend their influence in the Orient. American aviation has played a leading role. Pan American Airways has a 45% interest in one Chinese transport company, the other part being owned by the government. It was reported (November 15, 1935) that China Airways have been extended from Canton to Hanoi, where Pan American will apparently link its service with China, by running from Manila to Hanoi (French Indo-China). A second Chinese transport company is jointly owned by the government and the German Luft Hansa.

Curtiss-Wright not only exported planes for the armies of Chiang Kai-shek, but erected a plant to counteract British and Italian competition. The Italian government formed a consortium of leading manufacturers to export Italian planes to China at cost.[23] In April, 1934, the *New York Times* reported that the "governments of Great Britain, France, Italy and Germany have assigned air attaches to their embassies in China, in efforts to divert from the American market Chinese purchases of aeronautical equipment." Several months later it was reported that the Italians were winning out at the expense of the Americans. The American terms were cash, whereas the Italians arranged for down payments to be financed through the Italian share of the Boxer indemnity fund, with the balance payable on a six-year credit plan.[24]

The *New York Times* (April 28, 1935) said that Washington has been disinclined to give official backing to the military aviation activities of its nationals. But the head of the original American aviation mission to China was a retired U. S. Army officer, who went to China on leave of absence from the Standard Oil Co. (New Jersey) "granted at the suggestion of the Department of Commerce.[25]

The Aeronautical Chamber of Commerce of America reported in its 1934 Yearbook that the expansion of air routes to Asia, Africa and Latin American countries intensified international competition and "developed rivalries which might make any kind of situation in the near future."

Aviation is now definitely monopolistic in the United States, with a few companies largely in control of the industry, and these companies controlled by several groups of financiers. For profits the industry depends on war orders to manufacturing plants, and airmail subsidies to transport lines. Exports will also play an important role until the full capacity to manufacture engines and planes is pushed to war-time activity.

Air strength and the control of foreign transport lines reaching to the farthest points in South America and crossing the Pacific are also a direct factor in imperialist power and war preparedness. The air dominance already achieved in South America was glowingly described in the *New York Times:*

> All of South America's encircling network, flown by Pan American Airways, knows the shadow of American aircraft and the beat of Pratt and Whitney engines.

Trans-Atlantic scheduled flying seems likely to materialize in the near future. Regular trips of the "China Clipper" of Pan American Airways have brought the Philippine Islands and Pacific areas also under "the shadow of American aircraft." Since aviation is a war industry, and every plane is by its nature a military weapon, this technical progress is merely another step in the United States' industrial-war preparedness.

## CHAPTER XV

# STEEL, GUNS AND WAR MACHINES*

METHODS of warfare reflect industrial methods. With increasing complexity in the industrial technique warfare becomes more complex. Even since the last war new methods of waging war have been developed by the growth in the aviation and chemical industries. In many European countries war industries are so inter-locked with each other and with financial groups that one may speak of an armament ring which controls public opinion through its newspapers, and governments through its superior power. In the United States there are many tendencies toward centralized control in various war industries. DuPont, Morgan, Colt Patent Firearms and Electric Boat have clearly a powerful voice in various fields of government policy. But development of war industries in this country has not yet reached the stage of one organized munitions ring dominating all war production.

This is due in part to the fact that there is here an avowed policy of *industrial* preparedness, that is, an assumption that every manufacturer in the country is a potential munitions maker.[1] The War Department has collected data on at least 12,000 industrial plants,[2] now producing peace-time products, which could be transformed to the manufacture of munitions, for the Government arsenals can supply in case of war only a very small proportion of the estimated needs.[3]

In speaking of war industries, therefore, we distingush between two classifications: 1.) Companies that make armaments in the strict sense of actual implements and munitions of war, that is, cannon, guns, ammunition, tanks, military aircraft and naval vessels.[4] 2.) Companies whose equipment can be converted to war manufacture. In the last war, for example, some of the companies that produced armaments were: Willys-Overland Co. (of the automobile industry), Singer Manufacturing Co. (sewing machines), Mesta Machine Co. (builder of steel plants), Standard Steel Car Co., Otis Elevator Co., etc.

A discussion of war industries might properly include all industries, but this section will be limited to a consideration of the companies in the first classification, that is, armament companies. (Explosives have been considered under chemicals and military aircraft under aviation.)

By way of introduction, however, we shall give a brief sketch of the companies which manufacture raw steel. Steel is an industry basic in

*This chapter was written by Elsbeth E. Freudenthal.

modern life. In war and in peace the steel industry's ramifications touch practically every product, and control of steel means a large measure of indirect control over other industries. Although no general armament ring has been uncovered in the United States comparable with the European international armament monopolies, it is steel companies which manufacture armor plate. The leading steel producers have shipbuilding subsidiaries or direct links with shipbuilding companies. And Bethlehem Steel is one of the important manufacturers of ordnance.*

## *Steel*

Benedict Crowell, Assistant Secretary of War and Director of Munitions, 1917-1920, and Robert F. Wilson, formerly Captain, U. S. Army, wrote:

> Steel is the basic metal of war. Many of the indispensable tools of war are built of steel, and all war supplies depend on steel for either their fabrication or their transportation and nearly always for both.[5]

Ten raw steel producers have held a fairly stable position as leaders of the industry in the United States for the past several years. The following table shows their production capacity and their total assets on January 1, 1935, or the nearest date for which figures are available. Of course these figures do not include the capacity of their fabricating plants, and they take no account of rails, tubes, sheets, etc.

| | *Steel Ingot Capacity—gross tons* (in millions) | *Total Assets* (in millions) |
|---|---|---|
| 1. U. S. Steel Corp. | 27.3 | $1,962. |
| 2. Bethlehem Steel Corp. | 9.36 | 622. |
| 3. Republic Steel Corp. | 5.0 | 243. |
| 4. Jones & Laughlin Steel Corp. | 3.66 | 174. |
| 5. Youngstown Sheet & Tube Co. | 3.12 | 196. |
| 6. National Steel Corp. | 2.23 | 142. |
| 7. American Rolling Mill Co. | 2.2 | 96. |
| 8. Inland Steel Co. | 2.0 | 94. |
| 9. Wheeling Steel Corp. | 1.5 | 99. |
| 10. Crucible Steel Co. of America | .88 | 106. |
| Total, 10 companies | 57.26 | |
| Total, United States | 69.74 | |
| Percent, 10 companies to total U. S. | 82% | |

SOURCES: Capacity and assets figures from *Steel,* January 7, 1935, p. 130. Figure for United States (total) capacity from *Wall Street Journal,* February 28, 1935.

*Ordnance is defined as a general term for great guns for military and naval purposes, as opposed to "small arms" and their equipment; the term also includes miscellaneous stores under the control of the ordnance department.

Alloy steels are becoming increasingly important, and it is natural, therefore, for the largest steel manufacturers to be predominant in this field also. The main alloy steel companies in the United States are: U. S. Steel, Bethlehem, Republic, American Rolling Mill, and Crucible Steel—all from the above table; also Ludlum Steel Co., Allegheny Steel Co., and Timken Steel & Tube Co. (subsidiary of Timken Roller Bearing Co.)

Because of the strategic position of the steel industry it is also natural to find a high degree of development of finance capital, with a clearly dominant position held by Morgan and allied interests. Except in U. S. Steel Corp., other financial groups are also interested, and sometimes predominant. This is explained partly by the fact that the industry has grown up in certain distinct centers in coöperation with local banking groups. However, such local bank interests have been largely overshadowed by national groups or have become part of the large financial groupings.

Morgan control of U. S. Steel Corp., the giant of the industry and the first billion-dollar corporation in the country, has been clear ever since its formation. Morgan partners and officials of Morgan companies make up its directorate, and ever since the original merger in 1901 its financing has been handled by Morgan. This company is predominant in the important Midwest section and divides the Pacific coast area with Bethlehem.

Bethlehem Steel Corp., the next largest company, and possibly more important in armaments, also shows a large Morgan interest. When U. S. Steel was formed in 1901 the Morgan group had acquired control of Bethlehem as well, but finally decided not to merge Bethlehem and U. S. Steel. It is believed that they were kept separate largely because there were at that time, and still are, only three companies making armor plate —Carnegie (an important unit in U. S. Steel), Midvale Co., and Bethlehem. A combination of two of them might have caused the Government to manufacture its own armor plate. Therefore, in order to keep this increasingly important government business, Bethlehem and U. S. Steel were not merged. In 1914 Secretary of the Navy Daniels stated: "The annual report for 1913 contained an earnest recommendation for the erection of an armor-plate factory. Twice the Government has authorized the construction of a factory, but twice were the armor-plate factories saved a monopoly of this business through 'a mysterious Providence.'... But... it became even plainer than last year that the Government is at the mercy of the three manufacturers of armor plate whose policy is to make the Government pay prices much beyond a fair profit."[6]

Morgan has strong influence in Bethlehem Steel, but Mellon and other interests are also represented on the board and Morgan does not control Bethlehem as completely as he controls U. S. Steel. The relations between U. S. Steel and Bethlehem reflect this: they are sometimes coöperative (as in the export field and in their division of the Pacific coast) and sometimes competitive.

Midvale Co. is not one of the largest 10 steel companies but it is important as the third producer of armor plate. It is now a subsidiary of Bald-

win Locomotive Works in which Morgan influence is probably dominant. Some of the Midvale plants have been absorbed by Bethlehem. Morgan interests are therefore strongly entrenched in the manufacture of armor plate.

Distinct from these Morgan companies is another interlocked group of steel companies which were dominated by the Pickands-Mather and Hanna interests in Cleveland, and in which Cyrus S. Eaton was for a while aggressively active. Ten companies with seven interlocking directors were attacked early in 1935 by the Department of Justice in a suit under the anti-trust laws. Four are among the largest 10 companies listed above: Republic (the third largest steel company and the largest alloy steel manufacturer), Youngstown, Inland and Wheeling.* In this group, but not included in the Federal suit, one might include National Steel, formed in 1929 by the M. A. Hanna interests which have close Morgan affiliations.**

This loosely-knit group represents a move toward greater integration among the so-called "independent" companies. Cleveland-Cliffs has large ore reserves. Republic, Youngstown, Inland and Wheeling have small reserves but are important producers. Furthermore, Eaton, who was originally responsible for the merger forming the present Republic Steel Corp., needed pipe for the utility companies in which he and Otis and Company were interested.[7] In several of these companies there are direct links with Mellon and indirect links with Morgan.

The Department of Justice has apparently withdrawn the law-suit, and the group has recently undergone several changes: Republic and Corrigan-McKinney have merged: Inland is connected with Kuhn, Loeb & Co.; and Hayden, Stone, acting for a group of Eastern bankers and financial interests, has acquired a substantial interest in Cleveland-Cliffs Iron Co.[8]

American Rolling Mill and Crucible Steel include a Mellon interest along with less important Wall Street connections.***

Jones & Laughlin is the one large steel company which is closely owned and appears to be genuinely independent. One of its officials is a director on two Mellon banks but the board of Jones & Laughlin also includes a representative of the Hillman group whose banking, coal, and steel manufacturing interests are putting up increasing competition with Mellon in western Pennsylvania.

* The other companies named in this suit are: Otis Steel Co., Delaware River Steel Co., Corrigan-McKinney Steel Co., McKinney Steel Holding Co., Cleveland-Cliffs Iron Co., and Cliffs Co.

** National Steel controls Weirton Steel, which carried on the notorious battle against union organization under Section 7A of the National Industrial Recovery Act.

*** Mellon steel interests include some participation in Pittsburgh Steel and control of the compactly integrated Alan Wood Steel Co. Another small company—Lukens Steel Co.—is cross-linked with Alan Wood Steel and with the Midvale Co.

In this industry, highly integrated both vertically and horizontally,* and controlled by the largest financial interests, prices have for years been non-competitive—there has been no free steel market. The old system of basing prices on cost plus freight from certain stated centers was incorporated in the Steel Code, and was attacked by the Darrow report as monopolistic.

American and European companies have many financial and industrial links. The largest American steel companies have licenses for Krupp stainless steel. American Rolling Mill has close relations with Vereinigte Stahlwerke, A.G., of Germany. There are many other links although they do not seem to be as close as those between European companies where, for example, Skoda, the French-owned munitions company in Czechoslovakia, gave financial aid to Hitler.

There are international steel cartels and trusts, pertaining usually to special products. The status of these cartels is uncertain. The international tubes cartel is reported to have dissolved, but the International Railmakers Association has been prolonged.[9] The International Steel Cartel recently made an agreement with the British Iron and Steel Federation, which was reported as "...another step...to complete organization of the world trade in steel."[10] American steel producers deny that they are connected with an international munitions ring, but there is much evidence like the Electric Boat-Vickers arrangement (see page 215) that points to the contrary. For example, a secret meeting of 107 steel manufacturers recently took place in France. These included delegates from Vickers, Skoda, Maxim, Schneider (all munitions companies), and Bethlehem Steel Corporation, represented by Charles M. Schwab.

During the World War Secretary Daniels said, "Though you can not establish it in black and white, there is no doubt of an Armor Plate Trust all over the world. That is to say, the people abroad who make armor plate will not come here and submit bids, because they know if they do our manufacturers will go abroad and submit bids. They have divided the world, like all Gaul, into three parts."[11]

Scrap steel also plays an important role in war manufacture. For example, Japan has become the best customer for American scrap iron and steel, buying in 1934 1,100,000 tons of scrap, besides 50 to 75 obsolete American merchant and warships.[12] "If Japan builds a larger navy, American scrap will build it, or at least play a prominent part in furnishing its raw material," according to the *Wall Street Journal,* October 6, 1934.

The importance of steel in war materials has been indicated. The importance of war to steel profits is obvious from the records of the

* Vertical integration means the combination of companies engaged in the various steps of production of a commodity; horizontal, the merging or combining of competing companies engaged in the same stage of production of a commodity.

World War years. At the end of 1916 steel prices in the United States were 240% above the prewar average. Three months after, April 6, 1917 (the day on which the United States officially entered the war), steel prices were 370% above the old level.[13] Operating profits of steel companies rose from a little over 200 million dollars in 1915 to $1,035,000,000 in 1917. Under governmental regulation of steel prices from September, 1917, to the end of 1918, operating profits dropped to *only* $820,000,000.[14] Naval experts, including a Secretary of the Navy, estimated that the average production cost of armor plate from 1896 to 1914 was $247 a ton, whereas the Government had paid, from 1887 to 1914, $440 a ton.[15]

War preparedness is also very helpful to the steel industry, and has been partly responsible for the upward trend in steel profits since the low point of the crisis. This is most obvious in the Midvale Co., which specializes in ordnance and armor plate. Its increased sales in 1934 and distribution of $20 a share to its stockholders (in addition to a regular dividend of $1 a share) were due largely to the Roosevelt naval program.[16]

## *Naval Vessels*

The long coast line of the United States has given opportunity for many companies in shipbuilding, repairing and drydocking, and all of these would be used, of course, in wartime for war purposes. In peace time, however, there are about seven companies or groups of companies that are engaged in the manufacture of war vessels (battleships, cruisers, destroyers or submarines), as well as merchant vessels. Of these seven companies two are wholly-owned subsidiaries of U. S. Steel and Bethlehem.

The "Big Three" of the shipbuilding industry, comprising New York Shipbuilding Corp., Newport News Shipbuilding and Drydock Corp., and Bethlehem Shipbuilding Corp., have figured in the hearings before the Senate Committee as having, through their fixed bids, almost complete control of Navy orders. In a separate class is Electric Boat Co., which, through its patents and foreign connections, has a virtual world monopoly on submarine building. The "Little Three," United Drydocks Co., Federal Shipbuilding and Dry Dock Co., and Bath Iron Works, Maine, are also said to combine for bids on naval orders. Warship-builders exert influence not only by fixing their bids, but by maintaining lobbies in Washington, and by lobbying and various kinds of pressure at international conferences called to discuss disarmament.[17]

The "Big Three" seem to share pretty evenly in naval and merchant vessel construction. A recent PWA allotment to the Navy of $238,000,000 was distributed approximately as follows:[18]

| | | |
|---|---|---|
| Bethlehem ....... | $65,000,000 | (cruisers and destroyers) |
| Newport News .... | 72,000,000 | (cruisers and aircraft carriers) |
| N. Y. Shipbuilding. | 87,000,000 | (cruisers and destroyers) |

In 1928-29 merchant vessel contracts were distributed as follows:

| | | |
|---|---|---|
| Newport ......... | $33,075,000 | (from Atlantic, Gulf & W. Indies, Dollar and United Mail lines) |
| Bethlehem ........ | 33,177,000 | (from Matson Line) |
| N. Y. Shipbuilding. | 31,700,000 | (from U. S. Lines) |

New York Shipbuilding Co. has had a varied history. It was known as American Brown, Boveri Electric Corp. from 1925-1931, when it resumed the present name, under which it had been incorporated in 1899. Many years ago it was owned by Mellon, Frick and others, who sold it in 1916. However, it is said that Mellon, who was acting for the group, retained $7,500,000 of the original bonds.[19] In 1933 Cord Co. acquired control—the same group controlling Aviation Co. (see p. 203) and Cord and Auburn Auto companies. On December 3, 1934, this company had uncompleted contracts on hand of over $44,000,000, the largest since the war.[20] It has a licensing agreement with Maschinenfabrik Augsburg Nürnberg for the latter's Diesel engine for railway purposes. It still has a link with Brown, Boveri of Switzerland in that both companies own shares in Allis Chalmers, one of the important companies in the electrical machinery and equipment field.

New York Shipbuilding is the only company among the Big Three whose shares may be acquired by the public. Bethlehem Shipbuilding is a subsidiary of Bethlehem Steel. Newport News, incorporated in 1886, is owned entirely by the heirs of Collis P. Huntington,[21] and the stockholders number six. One of its directors is indirectly connected with Stone and Webster, and another is a director of General Electric, which brings an indirect Morgan connection. This company is alleged to have made profits varying from 62% to over 85% in 1917-20.[22]

The "Little Three" parallel the "Big Three" in many ways. Federal Shipbuilding is a subsidiary of U. S. Steel. Bath Iron Works, Maine, seems to be a private company which does not publish financial reports. United Drydocks is the only one whose shares are traded in. These three companies are said to have got together on destroyer bids in 1933—according to testimony by a man who is now trying to collect from Bath Iron Works for services rendered in Washington![23]

The United Drydocks Co. is part of a loosely connected group that can be indirectly traced back to the steel industry, and the large financial interests. Through important cross-directors it is connected with American Shipbuilding Co., a dominant company in the Great Lakes district, closely allied to the steel industry through its business and through the Great Lakes Towing Co., on which are representatives of the big steel companies. There is also a link, through American Shipbuilding, with American Ship and Commerce Corp. The last company controls Wm. Cramp & Sons Ship and Engine Building Co., which is reported to be defunct, but which nevertheless entered a bid on a destroyer in August, 1934. The financial interests in this group, besides the representatives of

the large steel companies, include Hayden, Stone, several representatives of the Goodyear-Zeppelin group, and W. A. Harriman.

As mentioned before, there are numerous shipbuilding and repair companies all over the country. Sometimes these are connected with other industries, as, for example, the Sun Shipbuilding and Drydock Co., which is a wholly owned subsidiary of the Sun Oil Co.; and the Johnson Iron Works, Dry Dock and Shipbuilding, Inc., a New England company connected indirectly with United Fruit. There are also independent companies, like Todd Shipyards Corp., said to be one of the largest ship repair organizations in the world, which shows very slight banking links. These will be important in the event of war, but the six companies specified above are important as producers of war vessels now.

To these six companies must be added Electric Boat Co., which occupies a unique position, and whose chief activity is war products. It is the only private company in America building submarines, and it owns basic patents without which no submarine can be built.[24] From 1900 to 1927 the company and its licensees built 391 submarines, of which only 165 were constructed in the United States. This figure of 391 submarines does not include a large number which used certain of Electric Boat's patents.[25] In 1928 the president of the company wrote in a letter "...the Electric Boat Company is able with perfect confidence to enter into contracts for the building of submarine boats in any part of the world which the buyer may choose, the cost varying in accordance with the basic price of labor in the different countries together with facilities of transportation, manufacture, etc."[26] This acknowledgment of monopoly is borne out by other facts showing complete control by this company.

In this country, Bethlehem has the machinery and the equipment to build submarines,[27] and during the war the British Government ordered submarines from both Bethlehem and Electric Boat; but, somehow, Bethlehem does not build submarines any more. In 1922 an official of Electric Boat wrote to Grace of Bethlehem,[28] "Bethlehem and Electric Boat companies are in many respects practically partners and are so looked upon by the Navy Department in relation to submarine-boat construction...." Bethlehem Shipyards formerly had a sub-contract for the hulls of some of Electric Boat's boats, but around 1924 Electric Boat decided to build its own hulls. The mutual confidence between these "partners" is shown by a letter from one official of Electric Boat to another discussing the decision to build hulls,[29] "Moreover, with this equipment in hand, I would not fear their (Bethlehem—*E.E.F.*) competition in the future and, if necessary, I think we could keep them in line by arranging to give them any excess of Atlantic coast work over our own capacity as well as all Pacific coast work."

Electric Boat has a contract with Vickers-Armstrong, Ltd., English armament company, covering the world and arranging for sharing of profits and exchange of patents. This is not only lucrative for Electric Boat, but is helpful in delicate international situations, such as existed in 1927 when Electric Boat was building two boats for Peru. When Chile

inquired about boats Electric Boat did not want to accept the order and referred the request to Vickers. Through its close relations with Vickers-Armstrong, which as its chairman has said[80] "relies very largely on armament orders for its existence" Electric Boat is a member of a world-wide armament group, including Skoda and Mitsui.

The financial and political influence exerted is indicated by the fact that the son of Georges Clemenceau, Michel, represents Vickers on the European continent.[81] In 1928 Dillon, Read floated a loan of $23,000,000 to Bolivia with which the Bolivian Government paid its bill to Vickers. The Brazil representative of Vickers is also the agent of the London Rothschild house. In 1924 when Vickers was anxious to obtain an order from the Brazilian Government for submarines, etc., Rothschild loaned Brazil £18,000,000.[82]

In spite of its membership in the European armament group, and its world dominance, Electric Boat shows no clear links to topmost American groups. Its directorate suggests a Morgan influence (which is borne out by Electric Boat's connection with Bethlehem Steel); and a tie-up with the Central Hanover Bank and Trust Co. Its stock is held by a very large number of brokers—but it is scattered among the second-size houses. The company's financial condition has been bad for many years, but since it is so important in armaments (making depth charges, arbors, Y-guns, cartridges, etc., as well as submarines) it seems likely that there are hidden connections with the larger financial interests.

To sum up—these shipbuilding companies control to a large extent naval construction in the United States, and show definite links with the international armament group. Two of them (Bath and Newport) are private companies; two are wholly owned subsidiaries of the two most important steel companies in the United States; and a third is closely linked with the steel industry; N. Y. Shipbuilding is controlled by the Cord group; Electric Boat's stock is scattered in Wall Street brokerage houses, and the company is linked with Bethlehem and Vickers, and through them with the armament industry of the world.

### *Tanks and Tractors*

The following companies are definitely in the business now of manufacturing tanks and military or convertible tractors.

International Harvester Co. is a completely integrated unit, owning coal and iron mines, steel furnaces and rolling mills, and having a production capacity of trucks and tractors far in excess of its present needs. It has many foreign manufacturing and sales subsidiaries. The directors are chiefly the McCormick family of Chicago, but Morgan put through the merger that created this company in 1902, and until recently there was a Morgan partner on the board.

Its chief competitor in the tractor field is Caterpillar Tractor Co., owning important patents. Caterpillar is the largest producer of track-type

tractors. The only important financial link shown by the directorate of this company is through A. L. Chickering, also a director on Pacific Gas and Electric and other companies indicating a possible indirect Morgan influence.

American-La France and Foamite Corp. and La France Republic Corp. are known as manufacturers of fire engines, fire-fighting apparatus and commercial trucks. However, the U. S. Army recently ordered five tanks from American-La France and Foamite.[33] Here we find a very definite indirect Morgan influence. American-La France has a contract with General Motors whereby they have a joint marketing agreement for fire-fighting apparatus (supplied by American-La France) and chassis (supplied by General Motors).

Cleveland Tractor Co. makes crawler tractors equipped with Diesel engines. This company's directorate shows close alliance with Eaton Manufacturing Co., an important war connection, since Eaton makes miscellaneous parts for aviation motors as well as auto parts and accessories. Another important link through a director is with a German armament company which in turn owns a large interest in a Swiss company making anti-aircraft and anti-tank guns.[34] Cleveland, with many links to Eaton Manufacturing Co. and one obvious link with the German armament industry is an important war company. The strongest financial interest on Eaton Manufacturing and Cleveland Tractor is the Cleveland Trust Co.

Baker-Rouland Co. is small but has important connections with the steel industry and American Shipbuilding Co. (connected with United Drydocks, makers of naval vessels). This company manufactures industrial trucks and tractors and military tractors as well.[35]

All commercial tractor manufacturers can transform their machinery to make military tractors and tanks. We have mentioned only those companies that are now known to be making tanks and tractors for military use, but it must not be forgotten that the entire automobile industry is also potentially in this field. The dividing line is not clear between industrial tractors and convertible tractors—that is, tractors used in agriculture that can also be immediately converted into military use.

## *Arms, Ordnance, etc.*

The field of manufacturing firearms, ammunition, etc., is also not clearly defined. Some companies claim to be only sports arms manufacturers, other companies manufacture guns incidentally to their main business, and still others act as brokers for arms and do no manufacturing at all.

In the manufacture of small arms there are five important companies. Remington Arms is now controlled by E. I. duPont de Nemours & Co., and dates back to 1816. It has an English subsidiary company and recently shipped 10,000,000 cartridges to Bolivia. Although there is one director

from the Central Hanover Bank and Trust Co. on this company it must be considered as wholly under duPont control and part of that large chemical company.

Savage Arms Corporation is a large manufacturer of firearms and ammunition, owns the patents for the Driggs Schroeder gun used in the U. S. Army and Navy, and has exclusive American rights to the Lewis machine gun. It has important financial links showing indirect Morgan and Hayden, Stone influences.

Colt's Patent Firearms Manufacturing Co. manufactures machine guns, anti-aircraft guns, automatic pistols, etc. It has a Belgian licensee, through which it is linked with a French arms company. This is an independent New England company, with traces of indirect Morgan influence.

Another important and independent company is the Western Cartridge Co., which owns all the stock of Winchester Repeating Arms Co. This seems to be a private company. Smith and Wesson, Inc., another private company, manufactures pistols and revolvers for domestic and foreign distribution. Its plant at Springfield, Mass., has a capacity of about 125,000 firearms annually.

For years the only private source of torpedoes was the E. W. Bliss Co., which manufactures other ordnance as well. The U. S. Government bought from this company, but may manufacture at least part of its torpedo requirements at government arsenals now.[86] This company is not only important in the United States, and in ordnance, but it does a large export business, has plants in London and Paris, and manufactures plane engines under license from an English aviation company. It shows a clear although indirect Morgan influence, and also has a representative of Chase National Bank on its directorate.

The competition in this business of ordnance manufacture and selling has become increasingly keen in the last few years, and there has been an increase in the number of companies in this country selling guns and other ordnance and armaments. This is due chiefly to three causes, in addition to the original and main fact that all countries are spending more for armaments every year, and that military expenses are far above the 1913 level.[87]

1. The United States Government encouraged these companies. In 1927 a letter from the War Department, Office of Chief of Ordnance, to Driggs Ordnance & Engineering Co. said, "It is the desire of the Ordnance Department that this work (ordnance—*E.E.F.*) be encouraged in every way possible, . . ." and also, "In fact, we are in full sympathy with the work and with the building up of munitions work, both in your own company and in other companies in this country, and we will be very glad to coöperate with you to the fullest extent possible if you will simply let us know what you wish." [88]

2. It is easy to get the parts and machinery to manufacture ordnance from several companies in this country. An ordnance manufacturer testified that one could organize a plant to manufacture war supplies almost overnight.[89]

3. Smaller countries in Europe and South America have been buying large quantities of war supplies, and it was easy, after obtaining an order from one of them, to get credit here with which to fulfill the order. Furthermore, official embargoes on shipping arms were ineffective, and bootlegging of arms has been quite simple.*

There are four armament companies, seemingly independent, whose activities are important in the United States and also South America. Driggs Ordnance & Engineering Co. was organized in 1888, and is privately controlled. Its breech and semiarmature mechanisms have been standard equipment of the U. S. Army anti-aircraft guns for a number of years.[40] In 1925 it went into foreign business and has sold ordnance to many South American and smaller European countries. An example of the method of financing war orders occurred in 1929 when Driggs tried to get an order from Poland and inquired from Chase Securities Co. in New York about financing it. Chase Securities advised that a pending so-called railroad loan be increased to cover this war order, and then "The whole should be known as a 'railroad loan' so that there need be no talk of borrowing for war material."[41] The order did not go through, but in 1932 Poland ordered anti-aircraft guns from Driggs amounting to $1,800,000.[42]

Driggs' main competitor is the American Armament Corp., formed in 1933 by a former employee of Driggs, without any capital investment whatsoever by its founders. Within seven months the company had secured contracts from Bolivia and other countries valued at $2,902,000.[43] It made a manufacturing and profit-sharing agreement with Elevator Supplies Co., in building supplies for over 40 years, and can, by this arrangement, make armaments. Furthermore, the company represents Soley Armament Co., Ltd., in North and South America. Soley, located in England, is said to control more munitions for immediate sale than any other private company except possibly Benny Spiro of Berlin.[44] Soley is said to have a factory in Belgium which is limited to an output of about 3,000 rifles per week.[45] But an officer of Soley, writing to American Armament Corp. in February, 1934, said "...we are really the sole selling channel for small arms, etc., which belong to the British War Office,..." Therefore, the connection of American Armament with Soley is of great importance.

Federal Laboratories, Inc., has been mentioned in connection with chemicals, since it produces large quantities of tear and other combat gases. It also has the exclusive agency in North and South America for the Thompson sub-machine gun. About 40% of the company's business is usually foreign, but in 1934 foreign sales amounted to fully 50%. Sales to Cuba were evidently increased by the fact that the president of Federal

*Lake Erie Chemical Company labeled a shipment of munitions to a South American country "drugs" because of the embargo. Even if this misleading label had been discovered, there would have been no penalty to the company—in short, there is no means of enforcing the present official embargoes. (U. S. Senate, 73: II and 74: I, Committee Investigating the Munitions Industry, *Hearings on Munitions Industry*, pp. 2024, 2027.)

Laboratories was made technical adviser to the Cuban Government of Mendieta on all police matters. Most of the domestic business is with the police departments in the United States. The Railway Audit and Inspection Co., which furnishes employers with undercover operators during strikes has a director on this company. Another interesting director is Penniman of Atlas Powder Co., which indicates a duPont influence.[46]

The chief known competitor of this company is Lake Erie Chemical Co., sometimes known as U. S. Ordnance Engineers, Inc., which is not the same company technically, but has an identity of stock owners and seemingly of personnel. The export company is called Export Consolidated, and its handling of rifles permits the officers of Lake Erie to testify that that company does not deal in rifles. Lake Erie has sold gases to the Police Department of New York City for several years. According to an agreement signed in 1932 Lake Erie is building a poison-gas plant in China for the Nanking Government, which is not yet completed.[47] There is no information about the financial control of this company, and it seems to be privately owned like many others in this branch of the armament industry.

## *Metals, Machinery and Tools*

Metals such as aluminum, nickel, copper and their various alloys enter into many industries and are important in peace time and therefore in war. Since their function, although important, is primarily for peace-time industry, they can not be considered under the heading of War Industries, but their potential war function should not be forgotten.

Manufacturing of industrial machinery and tools is an industry also primarily for peace time. However, much of this industry's equipment can be transformed directly to manufacture of war products, and many machines and tools are needed to wage war. "During the World War, when manufacturing activity was at its greatest height, the demand for machine tools reached a higher level than ever before. Munition and war material demands far exceeded domestic capacity and consequently many manufacturing plants were converted so that they could produce such materials.... Business never had been better."[48]

Large orders for machines and tools have been recently placed not only by the U. S. Navy and War Departments, but also by various companies that needed these products in order to fill their Navy and War Department orders.

Some of the largest companies specialize in supplying one or two groups of industries. Thus, certain companies supply equipment for the oil industry, others depend chiefly on the automobile and aviation industries. In such cases the machine and tool company and important units in the industry supplied are often under identical control. For example, the Niles-Bement-Pond Company shows a strong National City Bank influence, and at the same time it has a large interest in the United Aircraft

and Transport group and the Zeppelin companies—also under the National City Bank influence.

In many other products there is no mass production since the chief factor is design. The companies in this field are frequently small and privately-owned—but nevertheless important.

There have been relatively few mergers in this industry. Control is scattered, and the industry's development has been uneven. On one hand, encouragement is offered to small companies by the demand for specialized products, by the lack of mass production in some important articles, and by the prospect of increased war orders. On the other hand, a high degree of concentration exists in some specialized fields. Also, certain large industries seem to be extending their activities into this field.

## *Conclusion*

From two different angles the importance of war industries is increasing. The sharpening of inter-imperialist rivalries has speeded up the United States preparedness program and led to record peace-time expenditures for war equipment of all kinds. At the same time war orders from the government are playing an important role in the effort to revive heavy industry. Government production, furthermore, in Navy yards and arsenals, is kept within limits satisfactory to the dominant industrial groups.

The *Wall Street Journal* (February 21, 1935) says:

> Pacifists would be amazed if they could have a glance at the order books of some of the munitions makers. In a few special instances plants are booked from six months to a year ahead and plans are being considered for making some additions to present capacity. Light ordnance business is particularly good and with the War Department asking for appropriations for a greatly enlarged aircraft defense, calling for machine guns as well as flying craft, the end is not in sight.
>
> It may be that the munitions business is accounting for the surprising manner in which miscellaneous demands for steel are holding up.

A total of 20 broad strip mills have already been built by various steel companies. These 20 mills have a potential annual capacity of over 10,000,000 gross tons—at a time when the industry has been operating at less than 50% of capacity.[49]

Already identity of financial interest runs through various phases of war industry through the wide Morgan connections in steel and armor plate, in shipbuilding, in the making of tractors and automobiles, and in the chemical industry through the Morgan-duPont alliance. In other fields, for example, machine guns and submarines, to which no direct Morgan links have been revealed, a close patent monopoly is maintained by some one company that operates in profitable harmony with the Army and Navy. Certain elements of an armament ring are present but they

have not yet been brought together in compact corporate unity and in several fields—including chemicals which large corporations dominate—much important production is scattered among small independent companies.

As we have noted, there is no real division between war- and peacetime industries. The War Staffs have laid plans so that many companies in every industry will have a definite part, already assigned, in the next war. Thus, the United States' policy of industrial preparedness, linked with armament expenditures that increase every year, means simply that all industry is now prepared for war.

CHAPTER XVI

# RAILROADS, THE RIPEST MONOPOLY

No SECTION of American industrial life has reached a more advanced stage of capitalist development than the railroads. Here we find highly developed monopoly and an open and far-reaching use of the state on behalf of corporations. Traffic competition among the several big systems has been greatly modified by regulation, but intense competition for control of railroad companies persists among finance capitalists.

## *The Big Systems*

In spite of its extreme development, monopoly in the railroad world has never been completely unified and absolute. The shipper sending goods from Chicago or St. Louis to New York has a choice of routes operated by different railroad corporations. Competition of alternative routes under separate and distinct control has been theoretically required for all the principal long-haul railroad arteries, but such competition has been subject to detailed federal regulation of rates. Competing roads may not bargain with shippers and underbid one another to attract freight. And this modified competition among railroads for long hauls between chief centers of population, or from one general region to another, breaks down into obvious and complete monopoly so far as railroad transportation is concerned for hundreds of smaller towns and for some important industrial regions.

Many of the apparently independent roads are linked with other roads by some degree of stock ownership. Each of the big systems is, of course, made up of a large number of companies held together through stock control by the dominant top company (sometimes by means of intermediate subsidiaries and sometimes directly) or through long leases with guarantee of bond interest or dividends. To describe the structure of the big systems is a highly specialized task quite outside of the scope of this book.* But it is important for us to glance at the less obvious interconnections among roads which are not operated as a single system. Several

* The most recent detailed information assembled in easily accessible form is contained in the so-called "Splawn Report" on *Stock Ownership in Railroads* published as House Report No. 2789 of 71st Congress, 3d Session (1931).

"independent" roads are under the control of some other road which holds a considerable minority block of stock in the "independent" road. The most important examples of this relationship are shown in the list of railroads included among the largest 200 corporations in the United States. (See Appendix B, page 310.) In a class by itself is the Van Sweringen group of railroads. Here several large roads operating independently have been controlled through a maze of holding companies heading up in Alleghany Corp. Somewhat similar are certain developments of the Pennsylvania system, through two holding companies, but here the stock owned by the holding companies usually supplements stock owned in the same roads by the Pennsylvania Railroad itself.

Our list of railroads among the largest 200 corporations shows 38 operating roads and the Alleghany Corp. which controls five operating roads not listed separately. But when all the important minority stock holdings are taken into account, these 43 operating roads fall into 21 corporate groups. Among these are 13 major systems, operating each more than 5,000 miles of track and together controlling, directly or indirectly, nearly 90% of the total mileage in the United States.

Concentration of railroad power is even greater than this figure implies. For back of the 13 major systems and the 8 smaller systems is the dominating power of Morgan and Kuhn, Loeb. Financially, the principal systems and roads may be grouped as follows.

MORGAN

*Major Systems*

Alleghany Corp. group
Atchison, Topeka & Santa Fe
Atlantic Coast Line
Great Northern-Northern Pacific
New York Central
Southern

*Smaller Roads*

Delaware, Lackawanna & Western
Florida East Coast

KUHN, LOEB

*Major Systems*

Chicago, Milwaukee, St. Paul & Pacific
Pennsylvania
Union Pacific

*Smaller Road*

Delaware & Hudson

MORGAN AND KUHN, LOEB

*Major Systems*

Baltimore & Ohio
Chicago & North Western
Southern Pacific

*Smaller Roads*

Chicago Great Western
Missouri-Kansas-Texas
Western Pacific

This list understates the overlapping of interest by Morgan and Kuhn, Loeb in the railroad field. For Kuhn, Loeb continued its banking connection with two roads captured by the Alleghany group: Missouri Pacific

and Chicago & Eastern Illinois. And Morgan banking connection continues with New York, New Haven & Hartford and Lehigh Valley although both are now controlled by Pennsylvania.

One major system, the St. Louis-San Francisco, is not linked to Morgan or Kuhn, Loeb but seems to be dominated by a group representing Chase National Bank and the Seligman and Speyer firms. Two smaller roads, Seaboard Air Line and Virginian Railway, complete the total of 21 systems. Virginian is supposed to be controlled by the estate of the late H. H. Rogers, an early Standard Oil magnate. Seaboard has an indirect link with Morgan through the fact that a Morgan lieutenant is one of the receivers.

How Morgan and Kuhn, Loeb are tied in with the seven billion-dollar systems has already been shown in some detail in Chapter VII. It is not necessary here to add further details about the technique by which Morgan or Kuhn, Loeb influence operates, for the general pattern of their control has already been described. Neither shall we elaborate the picture by showing what other financial groups are also active in several roads. All the important financial groups have some railroad connection, but where Morgan is present the other financial group is usually secondary to the Morgan influence. In two of the three major Kuhn, Loeb roads no other single group is so important as Kuhn, Loeb. Harriman interests are, however, still important in Union Pacific.

## *Chaos and Monopoly*

Back of the few financial interests and the regulated competition of different roads and systems, there has persisted a sharp competition among the big systems for the control of certain smaller roads which have a strategic importance in the general traffic situation. Such conflicts occur even between systems under identical financial control, but they have been sharpest in recent years between the Pennsylvania and the major eastern systems under Morgan influence. In fact, the whole history of mergers and shifts in control in the railroad field since the World War illustrates with exceptional clearness the kind of inner conflict which makes "planning" impossible under capitalist monopoly.

Consolidation of roads to promote economy of operation was recognized as desirable for the railroad companies and for shippers when the railroads were returned to their private owners after the World War. Planning and regulation of consolidated systems were authorized in the Transportation Act of 1920. Employing the most expert technical advice they could summon, the Interstate Commerce Commission published in 1921 a tentative plan for 19 systems, and began to hold hearings and invite criticism from the railroad corporations. Not until 1929, however, did the I.C.C. offer its definite plan, proposing 21 systems.

But the purpose of the consolidations was never clearly defined. They were supposed to serve the traffic needs of the country with a maximum

of efficiency and economy. At the same time competitive services on long hauls were to be maintained. And back of the terms of the act was the recognized financial purpose to rescue the roads which were financially weak and enable them to meet interest charges and dividends to private owners. The I.C.C. might recommend such integrating of roads as would throw traffic over unprofitable routes, but this would probably be in direct conflict with economy and efficiency. The I.C.C. might veto new railroad security issues but it had no authority to order the reorganization of capital structure to squeeze out the water from over-capitalized roads. Also it must fix uniform rates but there was no way of adjusting these uniform rates to provide a profit for the weakest roads without presenting the strong roads with a superprofit!

Academically, it was assumed that weak roads might be hitched into systems with the strong roads and their income be increased by a sort of pooling of the strong roads' profits. But the strong railroad interests had seen to it that the I.C.C. should have no power to enforce its consolidation plans except the negative power of vetoing other combinations. No strong corporation would voluntarily absorb a weak road unless the controlling bankers saw an immediate profit to themselves in the deal.*

In the meantime the Act of 1920 required, in its so-called "recapture clause," that any "net railway operating income in excess of 6 per centum of the value of the railway property" should be set aside, one-half of it in a special reserve of the corporation, one-half "recoverable by and paid to the Commission for the purpose of establishing and maintaining a general railroad contingent fund." The basis of valuation was hotly contested and practically all the money claimed by the I.C.C. for the contingent fund was retained in the railroad treasuries in special reserves. The clause was unconditionally repealed in 1933, the repeal releasing to the railroad companies some $360,000,000 which had accumulated from excess profits since 1920.**

The whole scheme was worked out without regard to the effect of consolidations upon railroad employment.

Plan or no plan, the big roads and the dominant groups proceeded to push railroad mergers. From 1920 through 1929, control of more than 50,000 miles of road (about one-fifth of the total in the United States) was acquired by lease and/or stock ownership under permission of the I.C.C.[1] Most of these mergers were in line with the tentative plan of the I.C.C., but none of them accomplished the building up of a system proposed by the Commission. Parallel with these approved mergers, there

* On the various cross-currents involved, see W. M. W. Splawn, *Consolidation of Railroads,* 1925.

** Of this total over $116,000,000 returned to the principal coal-carrying roads: Chesapeake & Ohio and Hocking Valley of the Van Sweringen group; Norfolk & Western of the Pennsylvania system; and the Virginian. About $45,000,000 returned to the ore-carrying railroads owned by the U. S. Steel Corp. (*Hearings on Recapture Clause of Transportation Act,* U. S. Senate Committee on Interstate Commerce, 73d Congress, 1st Session, 1933, p. 12.)

began in 1927 a drive by the big systems to acquire strategically important roads otherwise assigned by the I.C.C. plan. To evade the supervision of the I.C.C., the Pennsylvania Railroad set up a subsidiary holding company (Pennsylvania Co.) in 1927. Then in 1928 the Morgan-Van Sweringen group set up a whole cluster of holding companies, and the following year Kuhn, Loeb and the directors of the Pennsylvania set up another holding company (Pennroad Corp.).

After the I.C.C. published its definite plan (under which some of the connections already established would have been ripped apart), the Pennsylvania and the other three big systems in the East (New York Central, Baltimore & Ohio, and Chesapeake & Ohio—in all of which Morgan has influence or control) offered a joint four-system plan for eastern roads. These proposed consolidations secured I.C.C. approval although the four-system plan destroyed the Wabash-Seaboard system and other details in the official plan. The Prince Plan and others privately drafted have also been proposed.

When the Emergency Railroad Transportation Act of 1933 was passed, the wrecking of the I.C.C. plans was ignored. In a slightly amended form, the old provisions of 1920 were continued, allowing consolidations provided they are related to the central plan of the I.C.C. Holding companies controlling railroad corporations were brought under regulation by the I.C.C., and combinations already set up through the use of holding companies were made subject to examination and possible dissolution. But up to the end of 1935, no action had been taken to disturb the existing relationships which conflict with the official plan.

Meanwhile, under the Emergency Act, a Federal Coördinator of Transportation was appointed, who was to promote operating economies. Regional Committees, dominated by the largest systems, were to devise closer traffic coöperation. Scrapping of duplicate terminals and warehouses and reduction of train service through joint scheduling and routing were authorized. The appearance of competition might now be discarded. Monopoly agreements were encouraged, subject only to approval by the Federal Coördinator and the I.C.C.

## *Regulation, to Guard Capital*

From the early subsidies and land-grants to the emergency loans of the present crisis-depression years, the railroads have held a favored position with the government. It sounds well to say, as capitalist writers do, that since railroads are necessary to the public they must be fostered and aided and their naturally monopolistic tendencies must be held in check by regulation. Stripped of such polite unrealities, the facts are that railroad promoters squeezed the government dry for their personal profit. Besides the land grants already noted (Chapter I, page 16), they demanded—and railroads still receive—a generous scale of payment for

carrying the mails. This subsidy to the railroads has helped to create the chronic deficit in post-office operations.

Regulation came later when the system of secret rebates which served Rockefeller and, less conspicuously, some other industrial buccaneers, had begun to involve too many difficulties both for the railroad capitalists and for other large interests. The government stepped in to prevent rate cutting and thereby stabilized railroad income at a higher level than it could achieve on the basis of free competition. Officially stabilized rates have given with government sanction the advantages of monopoly agreement. So long as industry and traffic were expanding this was one of the chief financial services rendered by the government to the railroads.

When the crisis of 1929 cut into traffic and revenue, the railroad corporations put up a new plea for government help. As in all capitalist industries, most of the railroads have been capitalized on the basis of expected revenue from continued expansion of traffic. The crisis made it impossible for many of the roads to meet their bond interest and all but a few gilt-edged roads had no net profits for the stockholders after interest and other "fixed charges" were met. Bonds and short-term loans were coming due for which railroads could not raise funds through the usual private banking procedure.

Since the government had for years supported the railroads' rate structure, railroad bonds had become a standard investment for commercial banks, savings banks and insurance companies. The $19,000,000,000 of railroad capital * has been the largest industrial pillar of the financial structure.

So when the Reconstruction Finance Corp. was set up in January, 1932, it began immediately to lend millions to railroads. Up to April 30, 1935, the railroad loans authorized by the R.F.C. had totaled $507,645,424. Of this sum, $458,061,572 had been actually advanced and only $71,444,278 had been repaid. About two-thirds of the grand total had been authorized during the first year of the R.F.C. These earlier loans (to January 31, 1933) were analyzed in detail in Senate hearings, and fell into the following classifications:

| | |
|---|---|
| To pay taxes, vouchers for materials, wages, etc. | $39,795,000 |
| To pay interest | 73,960,000 |
| To meet equipment trust and bond principal maturities | 102,831,000 |
| To pay bank loans and other loans | 53,965,000 |
| For rebuilding or for new construction | 61,495,000 |
| Miscellaneous | 5,387,000 |

SOURCE: *Reconstruction Finance Corporation Loans to Railroads,* Hearings before a subcommittee of the Committee on Banking and Currency, U. S. Senate, 72d Congress, 2d Session, January-February, 1933.

Railroad companies were favored in the distribution of federal "public works" funds. During the calendar year 1934, the Public Works Adminis-

* Net figure (at par) after deduction of stocks and bonds owned by other railroads.

tration—distinct from the R.F.C.—loaned a total of $200,000,000 to 31 railroads for repairs and purchase of new equipment.[3] Aid was also granted for the elimination of grade crossings.

> The federal government is going to clear the track for increased use of high-speed, stream-lined trains by spending possibly $185,000,000 on grade crossing elimination on main lines of railroads between now and July 1, 1936. It won't cost the railroads a cent.[3]

Later this was referred to as the $200,000,000 grade-crossing elimination program.[4]

At the same time the railroads have increased their clamor for extending regulation to competing carriers. Why should buses operating on public highways be allowed to underbid the railroads? And besides, higher bus fares would increase the profits of the bus companies, in which some of the railroad companies themselves are interested.* Regulation by the Interstate Commerce Commission of interstate trucks and buses—except those carrying livestock, agricultural products, fish or newspapers—was set up in an act, backed by the Administration, in 1935.[5]

As the corner behind which prosperity was hiding drew further and further away, the railroads had to face the problem of capital readjustment. Short-term emergency loans had been helpful—and many millions had in consequence been pocketed gratefully by the Morgan firm and other railroad creditors. But even Wall Street had to recognize that such assistance could not be continued indefinitely. So they obtained a convenient revision of the federal bankruptcy act, applying only and especially to railroads and to individual debtors. (Later a similar law was passed applying to all corporations.) Under this act, a complete capital reorganization can be arranged with the approval of the I.C.C. and a federal court without the hocus-pocus of a foreclosure sale. Procedure is much simplified and the power of banker-dominated protective committees in relation to a minority of security owners is increased.

In the reorganizations already under way the Reconstruction Finance Corp. is playing an important role. As a large creditor and as one important source for new capital required in the present reorganizations, this government-owned banking agency holds a strategic position of considerable power. But this power is being used to restore the railroads as privately owned companies under private financial control.

Regulation has included the clamping down on railroad workers of the first compulsory arbitration plans put over in the United States for workers employed by privately owned corporations. Mediation boards

* The "Splawn Report" shows that in 1929 there were 59 "motor carriers" in which one or more railroads held stock interest of more than 10%. Data for the spring of 1935 on the Greyhound Corp., the largest interstate bus operator in the United States—show substantial interests held by Pennsylvania Railroad, Southern Pacific Co., General Motors (Morgan-duPont) and Atlas Corp., an investment trust in the Morgan sphere of influence.

were set up under the Erdman Act in 1898, and strengthened in 1913 (Newlands Act) and 1920 (Transportation Act). But the machinery was not perfected until the Railway Labor Act of 1926.[6]

With the rising wave of labor struggle during the crisis-depression, the more liberal forces in the Roosevelt administration realized that the continued success of arbitration machinery might depend on the workers' choosing their own representatives. Shop workers might revolt against the company unions which had taken possession of them in many railroad systems after the defeat of the shop strike in 1922.* So in 1934 the Railway Labor Act was amended to weaken the hold of the company unions. The yellow-dog contract was forbidden. And it was made unlawful for any carrier to contribute funds or give assistance to any organization which was to represent the workers in their collective bargaining. The company unions—stimulated, of course, by the railroad companies—tried to set up inter-system organizations. But with the withdrawal of company funds these failed to develop.

In most of the shop elections held during the past two years, the regular shop craft unions have won majority support. And the *New Republic* in its issue of November 20, 1935, could state: "One of the things you have not read very much about in the daily press is the extraordinary purge of company unions that has been—and still is—taking place on the railroads. Within the past year or so, such unions have been scrapped on more than seventy-five roads, including some of the largest." It must not be forgotten, however, that the regular shop craft unions have been revived and have won recognition as organizations for collective bargaining and arbitration of disputes under the strike-breaking Railway Labor Act.

Top officials of the railroad brotherhoods (train and engine workers) which had retained recognition on all "Class I" railroads ** had accepted the companies' no-strike policy and offered no resistance to the increasing speed-up and mass dismissals which had resulted even before the crisis. They did obtain in the Emergency Transportation Act of 1933 the proviso that approved economies in operation must not bring the total number of a railroad's workers below the May, 1933, figure as modified by "deaths, normal retirements, or resignations." But between 1923 and 1933, a million workers and employees had been dropped without replacement.

Government, under the guidance of the capitalists, has given the railroad companies the advantages of monopoly and has admitted some responsibility for restoring the roads to a profitable basis. It has set up the machinery to keep railroad workers quiet and eliminate strikes. The Roosevelt administration backs measures for extending regulation over

* For a full list of railway company unions as of 1932 see *Hearings on Emergency Railroad Transportation Act* before Senate Committee on Interstate Commerce, 73: I, p. 107.

** That is, roads having over $1,000,000 of yearly revenue.

other forms of transportation, but is indifferent to the bills on full crews and the length of trains which are necessary for workers' safety but would "harass railroads."

Railroad bankers continue to function without government interference. "Congress has empowered the Interstate Commerce Commission to examine the books, records, and files of the railroads.... No similar authorization has been given to the Commission to look at the books and records of a railway's bankers, insofar as those books and records relate to the affairs of the railroad for which they are bankers. In other words, *an exception is made in the case of the books and records of the people who really control the railroads.*"[7] (My emphasis.—*A. R.*)

In pointing out the need for extending such regulation, Prof. Chas. A. Beard presented a mass of material on recent dealings through which the financial groups had manipulated railway stocks and in order to support their deals had interfered with safety by speeding up the workers and ordering dangerous economies in operation. Other fresh evidence of such policies is promised in the course of the investigation of railway finance now ordered by the Senate.

"Profit is the only incentive to private investment." This basic principle in capitalist society is frankly admitted in the Baruch report, of the National Transportation Committee (February, 1933). The bankers are ready, when necessary, to scrap old bond issues, but they must be assured of "reasonable return"—that is, profits—on the revised capital set-up after reorganization. The present railroad financial crisis is intimately bound up with the severe crisis and depression of the capitalist world. And the general program of recovery through scarcity is less hopeful for railroad companies (with their dependence on volume of traffic) than for capitalists in other sections of industry.

If the revival of railroad profits is too long postponed and if the sources of special gain to the railroad bankers are permanently choked, we shall see Morgan and Kuhn, Loeb and other Wall Street groups moving to unload the railroads of the country upon the government. Wall Street will demand a high purchase price, with government bonds to replace piles of dead railroad securities.

Railroads are probably nearer than any other industry in the United States to such state capitalism, which is the last phase of capitalist monopoly.

CHAPTER XVII

# FLEECING THE FARMERS

FARMING under capitalism is carried on with the basic monopoly of private land ownership. Ownership of land is widely scattered, but each farm owner has a monopoly in his piece of land. No one can use it without his permission. In the same way, the capitalist class has the monopoly of factory ownership and workers may not use a factory unless they are hired by the factory owner. Land is the first essential for agricultural production. Now except for public cattle ranges in the West, land in the United States is accessible only to those who own it, to those who as tenants pay toll to the landowners, and to those who are hired as wage-workers by a landowner or tenant.

We must first understand the capitalist development within agriculture itself—on the basis of privately owned land—before we take up the subjection of agriculture to the financial monopoly of capital and credit and to industrial corporations which constitute the chief markets for many farm products.

Farm land monopoly has developed differently in the South, with its long history of slave-owning plantations, and in the North and West where independent small farming and homestead tracts were numerous. It is most glaring and obvious when large areas are held by a single owner. One-fourth (28%) of all American farm acreage is held by 1.3% of the farm operators in tracts of 1,000 acres and larger, according to the Census of 1930. Such tracts are reported from every section of the country and for every type of farm. They are most numerous in cattle ranches and western wheat farms.

But farm land monopoly has become most oppressive in the South, which includes more than half the farmers of the United States. Here many large tracts are operated by the semi-slavery of share-tenancy. The extent of large landholdings in the South is concealed by the fact that share-tenants appear in the Census as separate farm operators although they usually work under the supervision of the plantation owner or his hired manager. These share tenants made up one-half of the southern total in 1930 and operated nearly one-half of the total crop land harvested in southern states. Besides the million and a half share-tenants there were in the South an additional quarter of a million farmers who were straight cash tenants. All of them had small plots of ground,

averaging less than 50 acres for the Negro share-croppers and less than 100 acres for white share-croppers and all other southern tenant farmers.

The southern share-cropper is the most exploited of all the tenant farmers in the United States. Usually the landowner controls all his labor time, supplies him with all his tools, sells him food at the plantation commissary, and then disposes of the "tenant's" crop. After the crop is sold, the landowner makes his yearly settlement with the tenant, who has usually been given no current accounting. Even in good years the share-cropper usually finds himself tied to the landlord for another season by his "debt" to the landowner's store. Other share tenants have various grades of subjection to the landlord, between the "cropper" who is practically in serfdom and the independent tenant who pays partly in crops and partly in cash.* Share-croppers have begun to organize and demand greater independence and a higher standard of living. Their militant spirit and the solidarity of white and Negro share-croppers is one of the most hopeful elements in the present situation.

In the North and West land is increasingly controlled by absentee owners and mortgagees. By 1930 about 30% of the northern and western farms were operated by tenants and 14% were operated by men who hired only part of the land they were using. Another 26% were operated by owners whose ownership was impaired by mortgages averaging 41% of the value of the farm.** Less than one-third (30%) of the northern and western farms in 1930 were operated by farmers who owned all the land they were using and were not carrying a mortgage debt. In the South such "independent" farmers were even fewer, and represented only 25% of all southern farms.

### *Farm Capitalists and Poor Farmers*

Both mortgaged owners and cash tenants do have the use of the land so long as they are able to meet their interest, taxes, and rent. And however hard they may work themselves, more than half of the northern and western farmers are also employers who operate farms as petty capitalist enterprises employing wage-workers and retaining for themselves part of the value which the wage-workers produce. On the more than 50,000 "manager" farms definite absentee ownership of a large acreage is combined with the exploitation of great numbers of wage-workers.

Development of capitalist farms employing hired labor has gone farthest in New England and the Middle Atlantic states, in the Mountain

* See James S. Allen, *The Negro Question in the United States*, International Publishers, 1936.

** Among all northern farms operated by full owners, 45% were mortgaged. Among northern farms operated by owners who also used rented land, 59% were mortgaged.

states of the West, and on the Pacific coast. Most conspicuous in this respect are truck and fruit farms, some dairy farms in the milksheds of the large cities, and the sugar beet farms of the Mountain states. Militant strikes of truck farm, fruit farm and sugar beet workers have already reflected the increasing class-consciousness of these agricultural workers.*

Large farms and increasing employment of share-croppers and hired workers have naturally involved a wide income spread between the richest and the poorest farms. More than half a million farms (8.7% of the total in the United States) reported in 1930 a gross income for 1929 of more than $4,000. Among them were about 25,000 concerns with gross income of $20,000 and over. (These figures do not include the income received by southern plantation owners from their exploitation of sharecroppers.) A gross income of $4,000 or even of $20,000 is small in comparison with the tens and hundreds of millions of gross income reported by a few large corporations in manufacturing and transportation. But such a gross farm income appears in its true importance when we contrast it with the beggarly scale on which great masses of farmers have to operate. During that same "prosperous" year, 49% of all farms had each less than $1,000 gross income, and these included 900,000 (15% of all farms) with less than $400 gross income.

In agriculture, as in other industries, the larger operators, the more prosperous minority, wield a considerable measure of power over their smaller competitors. It is the large farmers who dominate the policies of all the old farm organizations. It is they who become executives in farm coöperatives. For example, in the Interstate Milk Producers' Association, the strongest organization of dairy farms in the Philadelphia milkshed, farmers owning less than 30 cows are not eligible to serve on the board of directors.

Farmers of all kinds were seriously affected by the world economic crisis, and it is the large farmers whom the Roosevelt farm measures have chiefly aided. The so-called "marginal" farms—that is the poorest—are being deliberately squeezed out of commercial agriculture. Assistant Secretary of Agriculture Rexford G. Tugwell stated on August 4, 1933:

> We must study and classify American soil, taking out of production not just one part of a field or farm, but whole farms, whole ridges, perhaps whole regions.... It has been estimated that when lands now unfit to till are removed from cultivation, something around two million persons who now farm will have to be absorbed by other occupations.[1]

The government has been greatly concerned for the banks and insurance companies and private capitalists to whom farmers are in debt. When farmers are granted relief in any form, the government agency

* Just as the I.W.W. expressed the class-consciousness of the large harvest gangs who used to be employed on the grain farms before most of them were displaced by the combine.

always has a sharp eye for the claims of the farmer's creditors. The poorer the farmer the smaller the margin of help that remains for him and his family after his creditors are provided for, and the less his chance of receiving any genuine boost toward a better future. At the same time under the acreage reduction program, the small farmer was practically excluded while the large farmers could intensify production on a reduced acreage. How the cotton "benefits" have been manipulated by plantation owners at the expense of utter destitution for sharecroppers has been told by several witnesses.*

The Roosevelt program has included a small amount of aid for those who want to attempt subsistence farming without any market crop. But this backward step brings a semi-starvation level of existence. It offers no solution of the problem for poverty-stricken small farmers.

The whole scarcity program is directly related to the destitution of millions of unemployed workers and the lowering of living standards for the masses of workers in industry which are inseparable from the present stage of capitalism.

## *Banking and Agriculture*

Bankers have always been actively interested in agriculture as a field for long-term investment of loan capital and as a source of profit from providing short-term credit.

Farm mortgages totaled, before the crash in 1929, about $9.5 billions and represented roughly 8% of the long-term investment of loan capital within the United States.[2] This meant a yearly toll of about $550,000,000 from the mortgaged farms to their mortgagees. Of these $9.5 billions of loan capital, one dollar in seven had been advanced by well-to-do farmers. A trifle more had been invested by other individual capitalists. But more than half had been loaned by life insurance companies, banks, or mortgage companies. Federal Land Banks set up during the World War with capital advanced by the U. S. Treasury had loaned more than 12% of the total.[3] But the Federal Land Banks have served merely as official channels for gathering in private capital. The government-owned stock provided a working base, while the capital loaned to farmers on mortgage has always been raised by the sale of Federal Farm Loan bonds to commercial banks, insurance companies and individual capitalists.

Even in 1928 at least one-third of the two and a half million mortgaged

* See especially articles by Raymond F. Daniell in *New York Times* in March, 1935; Powell and Cutler in *Harper's Magazine*, February, 1934; *The Collapse of Cotton Tenancy*, a study published by University of North Carolina Press in 1935. *Federated Press*, Washington service, stated February 22, 1935, that a report prepared for the Agricultural Adjustment Administration by Mary Connor Myers on evictions of Arkansas sharecroppers was suppressed because the serious conditions were too concretely described.

farms were carrying a mortgage debt considerably greater than half the current value of their land and buildings.[4] Such a heavy ratio of debt creates an impossible burden on the farmer. And when he fails to meet payments, his mortgagee has a legal right to foreclose. During the crisis years, increasing numbers of mortgaged farmers have been militantly resisting foreclosure and dispossession for non-payment of mortgage and taxes. But in spite of this, great numbers of farmers have lost ownership to their mortgagees. According to John Simpson, president of the National Farmers' Union, a million and a half farms were sold under foreclosure between 1920 and 1933.[5] The Federal Farm Loan Board reported that at the close of 1932 the Federal Land Banks had acquired outright or held subject to redemption by the former owner a total of 18,503 farms.[6] In Iowa, more than 7% of the farm land in 1932 was held by insurance companies, deposit banks, or land and investment companies.[7] In many cases, former owners have been retained as tenants or managers by the mortgage holders who have acquired their property.

It is fair to assume, in the light of the past, that the ownership of those farms that are mortgaged hangs on a very slender thread. Tenancy seems just around the corner for nearly half the farmers who still own their farms. In a sample study of farms throughout the country made recently by the U. S. Bureau of Agricultural Economics, with a total of $85,000,000 in farm mortgages outstanding on December 31, 1932, 36% of the amount was delinquent in the payment of principal or interest due, or both. Creditors are waiting for a rise in values to absorb another large slice of farm lands.[8]

Short-term financing of farmers between crops was another rich source of capitalist income. Commercial bank loans to farmers as of January 1, 1933, were estimated by the Secretary of Agriculture at $2 billions. Credit from merchants and dealers and other interest-bearing debts, including seed and feed loans, account for additional amounts variously estimated at from $1.5 billions to $4.5 billions.[9]

During the long-continued post-war farm crisis, the capitalists and their banks specializing in short-term credit met with difficulties. Thousands of rural banks went out of business. As the farm crisis deepened, with the world-wide crisis in industry and banking, capitalists were threatened with far more serious losses in this field. So the Roosevelt administration stepped into the breach and set up a complete government apparatus to assist in the liquidation of insolvent banks and take over delinquent mortgages and other farm debts. The new Farm Credit Administration may have a permanent function in providing future capital and credit for well-to-do farmers. Insofar as its apparatus is "coöperative," it automatically excludes the poor farmers who cannot subscribe for the required shares. Insofar as capital and credit are to be drawn from non-farming reserves, private capital will continue to serve as the ultimate source. But just as in the Federal Land Banks, private capital will be filtered through official hands. The government becomes the agent of the capitalist lenders, assuring them of a safe return on their money

and bringing to bear upon the farm debtors all the apparatus of the capitalist state.

## *Farm Markets and Big Business*

When it comes to the actual marketing of their products, large sections of the farmers find themselves subject to big business. And while big business has on the one hand held down the farm prices of agricultural products, on the other hand it has maintained monopoly prices in farm machinery and building materials. The average of all prices paid by farmers has run consistently higher than the average prices of farm products.

The pushing down of farm prices by the corporations which bought farm products was so glaringly obvious that farmers began to organize coöperatives and marketing associations for their own protection. But some of these organizations—which at best were controlled by the larger producers—have been rendered powerless by the tactics of the big purchasing interests. This has been most conspicuously true of certain dairy coöperatives in the milksheds of the large cities. A paragraph from *The Nation* (February 20, 1935) gives interesting evidence on this point.

> The investigation of the milk trust by the Federal Trade Commission has substantiated a charge made by *The Nation* more than a year ago—that the vast spread between the price paid to the dairy farmer for his milk and the price paid by the consumer is not legitimately to be charged to overhead but is *exorbitant profit for the big distributors, made possible through their control of marketing coöperatives.* In other words, the milk trust is a reality and not a myth. The commission is engaged in a national survey of dairy conditions and is at present holding hearings in Philadelphia. In the seven states making up the Philadelphia milkshed the marketing of milk is controlled by the Interstate Milk Producers' Association, which is nominally a farmers' coöperative but actually a tool of the distributors through its board of directors. Its president, H. D. Allebach, testifying before the commission acknowledged correspondence which showed that the much-discussed "basic-surplus" marketing system was used to starve out insurgent farmers and reward "faithful" ones. Under this system the farmer receives his highest price for "basic" milk, which is bottled, and lower prices for the rest of his supply, known as "surplus" milk and used for by-products. *By raising and lowering the "basic" quotas the Interstate controlled the farmer's income and was able not only to fill the pockets of the milk trust but to forestall any possibility of a fair election to give the farmers actual representation in their own coöperative. Allebach also admitted he had been "fighting the battles of the distributors" in the Pennsylvania Legislature.** (Italics not in original.—*A. R.*)

Consider the chief markets—in some cases the only markets—open to the farm producer. The wheat farmer is up against the gamblers in the

* A summary of Federal Trade Commission findings on Connecticut and Philadelphia milksheds was published in *New York Times*, April 6, 1935.

Chicago Wheat Pit and less than a dozen large milling companies, of which three hold an outstanding position. The farmer raising steers or hogs faces the handful of strong Chicago packers operating behind a screen of commission buyers and fake coöperatives. Other outlets exist through small local packers but prices paid by the large corporations control the market. Many truck and fruit farmers sell only to canneries. Sugar beets are grown under contract with one or another of the few beet-sugar refiners. Most of the tobacco must find a market with the half-dozen great tobacco manufacturers or else remain unsold.

Through its program of reducing farm output the Roosevelt administration has raised the prices of farm products. "Benefits" for farmers coöperating in the program were paid from "processing taxes" laid on the miller, the packer, etc. But the big processing companies had passed the tax back to the farmer, or on to the final consumer, or split it both ways. Their power over farm markets was undisturbed.*

Cotton moves into a more highly competitive world market. Plantation owners—who may have direct contact with large buyers—sell the crops raised by their sharecroppers. The smaller independent farmers reach the market through the local middlemen of the nearest town. After describing the complexities of the competitive cotton marketing machinery in the South, John A. Todd, an English economist, says: "The obvious comment on this whole system is that the dice are heavily loaded against the seller."[10] In spite of the absence of large corporations, large capital plays an important role in cotton through the banks. "Their manifold services are extended to all those who play a part in the growth, harvest, distribution and manufacture of cotton, whether they be farmers, ginners, warehousemen, jobbers, merchants, exporters, foreign buyers or domestic and foreign spinners."[11]

Cotton was practically pegged in 1934 at 12 cents a pound.** This figure, considerably above the competitive price in the world market, was of no help to the sharecroppers, who face the most desperate poverty they have ever known. At the same time, the 12-cent price did not solve the problem for plantation owners and independent cotton farmers. It served to cut the American share in the foreign cotton market and threw a larger share to the lower-priced Indian and Egyptian cottons.

By way of summary: Finance capital has a direct interest in agriculture through its large investment in farm mortgages and in the providing of farm credit. During the crisis, government has been brought in to carry much of the risk in this farm financing. The farm program of the Roosevelt administration aims to strengthen the richer farmers and to protect the farm investments of banks, insurance companies and other non-farming capitalists.

* When the AAA was overthrown by Supreme Court decision in January, 1936, large processors immediately entered suit to recover from the U. S. Government the millions of dollars they had paid in processing taxes under the AAA.

** The value placed by the federal Commodity Credit Corp. on cotton taken as security for loans. In 1935 loans were based on 10 cents a pound.

Under capitalism agriculture has developed a sharp difference between farmers who exploit wage-workers and poor farmers who are barely able to exist. The well-to-do farmers dominate the old-line farm organizations, including such coöperatives as have not yet fallen under the control of the big companies to which they sell.

While the sharecroppers and other poor farmers are organizing in the South, the middle and small farmers in the North and West are beginning to recognize the sharp cleavage of interest between themselves and the large farmers. They are increasingly eager to understand how the Soviet Union is solving the problem of agriculture through collectivization. And meantime thousands of them have put up organized resistance to foreclosure sales and have begun to take aggressive measures toward genuine farm relief.

CHAPTER XVIII

# DRIVING OUT THE SMALL TRADER

RETAIL trade, the last petty capitalist stronghold outside of agriculture, is carried on by more than 1,500,000 stores in the United States. These include every type of enterprise from the push-cart and the little corner newsstand to the great department stores with millions of yearly sales.

Three-fourths of all stores took in less than $100 a day (1929) and accounted for only 23% of the total sales.* These included 400,000 of the tiniest shops with sales of less than $20 a day. At the top of the scale, we find another fourth of the trade going to one per cent of the stores which report at least $1,000 of daily sales. These 15,000 large stores included in 1929 over 2,000 stores with more than $1,000,000 of yearly sales. Stores in the million-dollar class were of course relatively most numerous among department stores, mail-order houses, automobile dealers, and furniture stores, but half of them were in other types of business, including 219 food stores.

Stores selling more than $1,000 worth of goods a day are obviously large capitalist enterprises depending on friendly relations with a bank of considerable size. But as in other phases of capitalism, these figures of *stores* understate the actual concentration of ownership and control. Hundreds of large stores and tens of thousands of others are tied together by common ownership in chains or groups. Many of them have important close relations with large manufacturing concerns. And back of chains and groups and large independent stores, and other retail trade that is tied closely to industry, we find a still further concentration through common financial interest or control.

## *Chain Stores and Groups*

Chain stores represent the most obvious of all these interconnections. When the census reports that 20% of the total retail trade in 1929 and 25% of the total in 1933 went to chain stores, it is referring to a special type of group ownership which it defines as follows:

* The basic figures in this chapter are derived from the *Census of American Business*, 1933, and the "Retail Distribution" volume of the 15th Census of the U. S., 1930, giving trade data for 1929.

> A chain is a group of reasonably similar stores in the same kind or field of business, under one ownership and management, merchandised wholly or largely from central merchandising headquarters and supplied from one or more distributing warehouses or directly from the manufacturer on orders placed by the central buyers.[1]

Besides such large familiar chains as the A & P food stores, the Woolworth variety stores, the Sears, Roebuck and Montgomery Ward chains of department stores, and other leading chains, there are many smaller chains in these and other fields of trade. The 1930 census reported 7,061 chain-store organizations, operating about 10% of all the stores in the country.

Chains are strongest in groceries and in combination stores with groceries and meat, in the 5 & 10 and to-a-dollar variety stores, in shoe stores, cigar stores and stands, drug stores, and filling stations. Here the percentages of chain store sales ranged in 1933 from just over 25% for drug stores to about 45% for food stores and shoe stores and 91% for variety stores.

Of course chain stores did not escape the sharp decline in total sales after 1929, but in five important types of trade the ratio of chain sales to total sales increased markedly from 1929 to 1933:

| | *Chain store percentage of total sales* | |
|---|---|---|
| | 1933 | 1929 |
| Shoe stores | 46.2 | 38.0 |
| Combination stores (groceries & meat) | 43.7 | 32.2 |
| Cigar stores & stands | 33.9 | 25.1 |
| Drug stores | 25.1 | 18.5 |
| Department stores | 23.9 | 16.7 |

Only in three kinds of business did the chain ratio decline; in family clothing stores, radio stores, and jewelry stores.

Groups of department stores which have been brought under common ownership but continue to use the different names under which the several stores have been developed are classified separately from the chain department stores. This form of non-chain ownership group is used especially when old-established large stores are involved. Fourteen such groups reported by the 1930 census, had 23% of the total department store sales, as against 16% of sales received by the 33 chain groups of department stores. These "ownership groups" include R. H. Macy & Co., Inc., (New York) which owns three stores in other cities: L. Bamberger & Co. in Newark, LaSalle & Koch Co. in Toledo, and Davison-Paxon Co. in Atlanta. Federated Department Stores, Inc., controls three Boston stores (Filene's, R. H. White and Continental Clothing Co.), Bloomingdale's in New York, Abraham & Straus in Brooklyn, the Lazarus store in Columbus, Ohio, and Shillito's in Cincinnati. Associated Dry Goods Corp. controls Lord & Taylor and McCreery's in New York, J. N. Adam & Co. and

Wm. Hengerer & Co. in Buffalo, Stewart & Co. in Baltimore, Stewart Dry Goods in Louisville, and Powers in Minneapolis. Other important groups include Marshall Field & Co., Inc., in Chicago (which controls 20 other stores), Allied Stores Corp. (with 32 stores including Jordan Marsh and Hovey in Boston), the Gimbel and Saks combine in New York and Philadelphia, and Interstate Department Stores, Inc., with 35 smaller stores in as many different cities.

### *Trading and Producing*

Such increasing concentration of ownership in retail trade has been developed partly, at least, as a move to increase profits by getting back of the wholesalers and dealing directly with producers. Some of the largest stores and largest chains have also themselves gone into production.

For example, several grocery and combination chains operate bakeries, canneries, jam kitchens, etc., and soft-drink bottling plants. They have special contracts with large dairy farms and supervise without owning the production of butter, cheese and eggs. Sears, Roebuck & Co. (with sales about evenly divided between its chain of department stores and its mail order business) manufactures about 5% of the goods that it sells. Its factories produce farm implements, paint and varnish, cameras and phonographs, and musical instruments. It has lumber mills and box factories. Many other goods are produced by outsiders under special contract. Marshall Field & Co., Inc., owns some 25 textile mills and as many factories and workrooms. It manufactures bedspreads, blankets, silks, handkerchiefs, laces, men's clothing and shirts, knitted underwear, rugs and other dry goods. Much of the ready-made clothing sold in large stores is made by outside clothing factories on special order and under detailed specifications set by the retail dealer.

The Liggett Drug Stores are subsidiary to a large drug manufacturing company (United Drug, Inc.) which produces not only drugs but fountain sirups, stationery, rubber goods, and a few other miscellaneous drug store goods. But here the manufacturing company (United Drug) finds its most important outlets not through its own chains of 594 stores (chiefly "Liggett") but through the more than 10,000 "Rexall" stores which are "independent" in ownership but pledge to give preference to "Rexall" products in display and sales promotion.

None of these food or drug stores depends entirely on such controlled production. They all carry many lines of goods which they do not themselves manufacture, and often they find it profitable to carry brands that compete with their own products. They remain primarily retail traders, and with few exceptions they do not manufacture for outside markets. Some of the largest retailers—notably Woolworth—have not themselves entered any field of production.

Several shoe chains have been built up in close relation to manufacturers. For example, the largest—the Melville Shoe Corp. with its four

distinct chains of stores *—depends entirely on the output of eleven factories, in which it probably holds some financial interest and which have no other outlets for their products. The Florsheim shoe chain is openly owned by a manufacturing company.

In the two great dairy products companies—Borden's and National Dairy Products Corp.—we find another type of coördination between retail trade, wholesale trade and production. Both companies do a large retail business in milk, with delivery systems of their own (operating under many different names) and between them they dominate the fluid milk supply in at least 39 cities and towns in the United States, in Havana, Cuba, and in six Canadian cities. They also have in some cities chains of retail dairy stores (with limited lines of outside groceries). At the same time their fluid milk and much of the ice cream, cheese, and butter which they manufacture are sold to independent retailers. They maintain a few large dairy farms of their own, but most of the milk is purchased from outside farmers.

In the face of all such developments, it is obvious that the independent wholesalers have been somewhat reduced. Estimates included in the 1930 Census of Distribution are important on this point, although they refer only to the trade of 1929, and no earlier or later figures are available for comparison. *In 1929, less than half of the American manufactured goods sold in the United States for home consumption had passed through the hands of outside wholesalers.* About 8% went directly from manufacturer to home consumer, and the remainder was about equally divided: 46% going from manufacturers directly to retailers and 46% going to retailers through outside wholesale dealers. With farm products, the outside wholesalers played a far more important role. Only 10% of the total farm sales went directly to the retailer or the consumer.

When the outside wholesaler is eliminated, the manufacturer or the retailer or both naturally increase their share in the surplus value embodied in the goods. For products in which the trade is highly competitive, a small part of this advantage is usually sacrificed by passing on the goods to the purchaser in slightly lower prices in order to increase the volume of trade. So grocery and drug chains and mail order houses consistently undercut their "independent" competitors, but since their costs are low and their volume of trade is large, their profits are usually high.**

Automobile dealers and filling stations constitute perhaps the most important group with a low ratio of purchase from outside wholesale dealers. Here the producers have built up aggressive sales departments which deal directly with retailers and rigidly control the retail prices.

Practically all the 30,000 dealers in new cars are tied to some one

* John Ward, Rival, Thom McAn, Travelers.

** Liggett's drug stores and United Cigar Stores apparently went into bankruptcy not through lack of operating profits from total sales, but because of overexpansion in real estate investment which collapsed in the crisis.

of the automobile companies. They are reckoned as "independent" owners, because they have put in themselves, or raised from others, the capital with which they operate. Their business is not owned by the manufacturer. But an agency is granted by the manufacturer with the understanding that the dealer will offer no other car for sale. The dealer is under the most detailed control by the producing company. This relationship was described by *Fortune,* in December, 1931.

"To-day, all dealer activities have become the manufacturer's affair. He not only determines how many cars should be sold every month, and fixes the price and the inventory; he also controls the servicing of the cars, the bookkeeping, the advertising, the location and appearance of the premises, the boundaries of the territory, and the number of dealers to be placed in town. . . . His dealer, free and independent capitalist though he may be, has been reduced to taking orders and making repairs." Some auto companies have required a uniform accounting system. "A dealer without such an accounting system usually finds it impossible to borrow from the bank, and pays high interest rates to finance companies. But, with a system recommended by the manufacturer and certified by accountants, the local bank is only just around the corner.

From the viewpoint of the manufacturer: "The general proposition may be laid down, then, that to succeed, 'dealer operations' must be thorough, almost to infinity." Richard H. Grant of General Motors had pushed "dealer operations" furthest toward their logical extreme. "If one can characterize his merchandising in a few words, it is that he treats his 17,000 * independent capitalists as children."

Clearly, the fact that about 5% of the retail sales of new automobiles are made by chain motor stores is far less important than this subjection of the entire new car trade to the automobile manufacturing companies.

Among filling stations the ratio of chain sales (35% of the total) is of course much greater, but here also "independent" station owners, as well as the chains, are frequently tied by special conditions to a single oil company. The position of "independent" stations is described by the Census as follows:

A large proportion of the balance of the stations [that is, other than chains—*A. R.*] rated as independents are in fact agency stations of the larger oil companies, confining their oil and gasoline sales to the products of some one company. Sometimes the oil company owns the station and leases it on a gallonage basis to the independent operator. At other times the land is owned by the operator, the oil company advances the investment required for the station, and the operator repays it on a gallonage basis. A third relationship commonly existing is that the station is owned entirely by the operator, who contracts to handle one company's products exclusively in consideration of an additional margin of profit.[2]

* This number was undoubtedly reduced after 1931. Total dealers in new cars dropped from 42,200 in 1929 to just over 30,000 in 1933. (An illustration of the losses carried by the "independent" petty capitalist dealers, and the saving involved for the manufacturers!)

Three other forms of big capital penetration of retail trade must be noted. (1) Direct selling by manufacturers to consumers through house-to-house canvassers and (2) the maintenance of household appliance stores by utilities both increased from 1929 to 1933. But together these accounted for only one per cent of the total retail trade.

Even smaller in volume but of great importance to tens of thousands of industrial workers, is (3) the trade of company stores, classified by the census as "industrial stores (including commissaries)." The number of such stores doubled between 1929 and 1933, and their percentage of total sales rose slightly. But their $95,578,000 of retail sales in 1933 were still less than half of one per cent of the total in the United States. The true importance of these 2,719 stores * lies in the conditions under which they operate. In many company towns workers are practically forced to trade at the company store, and sometimes there is no other store within easy distance. Company stores have low labor costs and a bare minimum of other expenses, since their monopoly position requires no advertising and relatively little skill in buying. As part of a large industrial company they have usually ample credit and can buy on favorable terms. And yet, in spite of these advantages in cost, company stores commonly boost their prices above those prevailing in their general territory.

Chain stores, "ownership groups" of stores, controlled "independent" agencies, and manufacturers' retail outlets combine to push more and more petty capitalist traders out of business or turn them into convenient tools of the big corporations. Just which of the big capital groups are leading this advance against the stronghold of the little business man?

## *Financial Groups in Retail Trade*

Many of the top financial groups are involved. Motor manufacturing and trade are, of course, dominated by the Morgan-duPont General Motors and by the Ford Motor Company. The roadside gas dealer is in subjection to Rockefeller, Mellon and their semi-competitive associates in the oil industry. (See Chapter X.) In the daily trade which intimately concerns the masses of workers who must have food and clothing, the situation indicates continued maneuvering for position. Since necessary consumers' goods have held up better during the crisis than the luxury goods and the heavy industries, every financial group now wants to get its nose into this section of the profit trough.

A & P (that is, the Great Atlantic & Pacific Tea Company) is—in total sales—the largest retail concern in the country. Its sales were above one billion dollars in 1929 and above $800,000,000 in 1934. Having a rapid cash turnover it is able to carry on business with a relatively small capital. It continues to be very closely owned and has thus far escaped

* According to Census of American Business: Retail Distribution, 1933. A special NRA committee reported in 1934 "at least 4,000." *Federated Press*, Nov. 30, 1934.

outside financial control. But the president, John A. Hartford, of the family which founded the company, has long been a director of the Guaranty Trust Co. of New York, and the vice-president, A. G. Hoffman, continues as a director of Chase National Bank.

With this outstanding exception, most of the leading chain store groups, the two great mail-order houses, and the principal non-chain department store groups are directly, or indirectly but definitely, linked with some one of four financial groups: the Lehman Brothers-Goldman, Sachs alliance; the Morgan firm; the Morrow brothers who work in close alliance with Morgan banks; or Merrill, Lynch & Co., a Wall Street investment house which has specialized in chain-store stocks.

The Lehman-Goldman, Sachs companies include Sears, Roebuck and at least six department store chains or groups (Macy, Gimbel, Federated group, Allied Stores, Interstate group, and May Department Stores) besides at least three "independent" stores (Kaufmann's and Horne's in Pittsburgh and The Outlet in Providence). Their department stores had in 1933 more than 25% of the total department store trade in the United States. They lead in the variety store field, with the Woolworth, Grant and Kress chains. They seem to be dominant in National Dairy Products, the largest dairy concern in the country, and at least three grocery chains (Kroger, American Stores, and Jewel Tea). They are also represented on Florsheim Shoe and on A. G. Spalding & Bros., sporting goods manufacturer and retailer.

The Morgan firm is directly represented on Montgomery, Ward & Co. and with several outside Morgan lieutenants obviously controls the board. Marshall Field is also indirectly within the Morgan sphere of influence, through the big Chicago banks, through the financial coöperation of Field, Glore & Co. (investment house of the Field store family) with the Morgan firm and through other interests of Marshall Field directors. Morgan and Lehman are both represented on Associated Dry Goods Corp., one of the important department store groups.

George K. Morrow and his brother are Canadian capitalists, not related to the late Dwight Morrow who was a Morgan partner. In acquiring control of American food companies and chain stores they have commonly used the old device of a voting trust to hold their control, and their voting trustees usually include either E. W. Stetson, vice-president of Guaranty Trust Co., or Henry S. Sturgis, vice-president of First National Bank,—both of whom are, of course, Morgan lieutenants. This Morrow-Morgan combine controls United Drug, Inc., and United Stores Corp. whose subsidiaries included until October, 1935, United Cigar Stores, Whelan Drug stores and Pennsylvania Drug stores. When they sold these subsidiaries to a new, independent group, Phoenix Securities Corp., they had already moved toward control by United Stores of two of the smaller variety chains: McCrory Stores and McLellan Stores.

Chains backed by Merrill, Lynch include Melville Shoe, two of the important grocery chains (First National Stores and Safeway Stores), and S. S. Kresge, second largest variety chain.

A few other scattering interests are worth noting. The Borden Co. is interlocked with the Chase National Bank (Rockefeller). Wanamaker's (with vast stores in New York and Philadelphia) is closely owned but floated bonds in 1929 through Brown Brothers. J. C. Penney Co., a leading chain in the field of clothing and dry goods, has friendly relations with Chemical Bank & Trust Co. and Chase National Bank, but no bankers are on the board. Best & Co., a smart New York clothing store, with branches in suburbs and resorts, is backed by Hayden, Stone & Co.

Clearly, the petty tradesman finds himself in an increasingly difficult situation. If he has a good location, a chain store pursues him with its undercutting competition. He must usually buy his goods from wholesalers who have taken off a slice of the surplus value and leave him a narrow margin of profit. If he turns hopefully to the filling station business which requires an absolute minimum of capital, he merely adds to the thousands of new outlets for which there is no corresponding increase in trade. (From 1929 to 1933, the number of filling stations increased from 121,513 to 170,404, while their total sales dropped from $1,787,000,000 to $1,532,000,000.) The crisis has worsened the independent trader's position, but the trend was against him even during prosperity.

At the same time, of course, the growth of large stores and of chain stores has served to bring together much greater numbers of wage-workers and organized struggle is beginning to develop among retail clerks. The years 1934 and 1935 saw widespread strikes among retail workers.

CHAPTER XIX

# MONOPOLY AND COMPETITION

These selected industries which we briefly sketched illustrate the uneven development of monopoly in the various sections of capitalist society. They also show that even the most highly developed monopoly does not—and cannot—eliminate competition.

## *Monopoly, a Product of Big Industry*

The special privileges and advantages which are the essence of monopoly develop with the increasing concentration of industry and banking in large corporate units. They grow out of the forces used by capitalists in their competitive struggle. Questions of cost, of markets, of capital resources and credit all tend to build up the large industrial concerns interlocked with large banks and to cut down the total number of competitors. Some measure of monopoly privilege is inherent in large-scale operation and the fusion of banking and industrial interests. It appears and continues when no one concern controls even a majority of the total output in a given industry. Rival monopolies are characteristic of the imperialist era.

Privileges of monopoly have developed unevenly. Railroad corporations, for example, had begun before the Civil War to show the characteristics peculiar to modern monopoly. Only since the World War have monopoly concerns played a conspicuous role in retail trade.

Or contrast the great auto factories, complex and highly mechanized and geared to mass production of a costly commodity, and the women's clothing factory where division of labor and machine equipment are relatively simple and materials are relatively cheap. Less than 30 companies are listed in *Moody's Industrials* as manufacturing automobiles or motor trucks.* The largest three—General Motors Corp., Ford Motor Co. and Chrysler Corp.—have gained an increasing hold upon the industry. In 1935 they were producing over 90% of the output of passenger cars in the United States.[1] In the women's clothing industry, small capital is

* This number does not include firms making only automobile parts and accessories.

required. The few "large" concerns are smaller than the smallest automobile company. They hold only a tiny percentage of total output while innumerable small shops are opened and closed in a confusion of unmodified competition.

## *Special Factors in Monopoly*

A high degree of monopoly develops most easily when other factors besides large-scale operation are also present, as, for example, control of natural resources, control of research laboratories and patents, or operation of services in which unified control has immediate advantages for the consumer. But these factors which help to narrow down the number of competing monopolies can usually be brought into play only after a concern (or a small number of concerns) has acquired the special power of sheer size. They strengthen monopoly, but they cannot be developed apart from the favor of some unit in the financial oligarchy.

In steel, for example, U. S. Steel Corp. has held its lead among several large corporations not only through the strength of the Morgan power but by U. S. Steel's control of 75% of the iron ore reserves in the United States. The Mather interests which play an important role among the large "independent" steel companies have the second largest holdings in iron ore. American bauxite reserves, the source of aluminum, are 100% owned by the Mellon aluminum "trust." Refining of aluminum has been developed on the basis of large-scale, highly mechanized operation, but the absolute Mellon monopoly depends primarily on its control of all commercially valuable bauxite reserves in the United States, Canada, and South America.* Other minerals in the United States of which the principal reserves are held by a few powerful groups include copper, zinc, lead, sulphur, salt, and anthracite coal.

Monopoly in the handling of minerals has been most highly developed when the mineral itself is confined within a few definite areas or the process of extracting and refining it has been so technically developed as to require very large fixed capital investment. Anthracite coal, for example, is mined only in a small section of eastern Pennsylvania and the half-dozen powerful anthracite companies which maintain a monopoly price and dominate the production of anthracite contrast sharply with the highly competitive conditions in bituminous coal of which the readily mined reserves are scattered through more than 20 states. Copper is mined in seven states and the number of mining companies is relatively small. But modern methods of refining require very large and expensive plants, and control of the refineries through which most of the copper must pass is more concentrated than the control of copper mines. Petroleum refineries, combined with pipe lines and a world-wide marketing system, have been the key to monopoly power for the Rockefeller com-

* It has also been strengthened by a tariff which excludes foreign competition.

panies and their chief American competitors, while the production of domestic crude oil has been largely carried on by small enterprises. Modern oil refineries are not necessarily large, but large refining companies have a tremendous advantage through the extra profits they derive from the manufacture and sale of by-products which smaller companies are unable to develop. Outside the United States, the largest American oil companies—and their British-Dutch competitors—have captured and developed the crude oil production also.

Many of the farms within the United States that operate on the basis of free competition among themselves find their markets blocked by a purchasing monopoly and have to accept prices held below a free-competitive level. Other non-mineral resources—notably timber in the United States and Canada, beet sugar and fruit in the West and cane sugar in Cuba, bananas in Central America, rubber in Brazil and Liberia—have been manipulated directly by large American companies owning vast areas of land.

Corporation control of research laboratories and patents has also played an important role. Patent laws were supposed to protect the property rights of inventors. But with the increasing complexity of modern technique the poor inventor has small chance unless he is employed in some corporation laboratory. There the corporation appropriates the fruits of his work. When the company holds a strong position with a wide spread between prices and costs it may actually block technical progress by salting away patents for new processes which would undermine the value of existing equipment. If an outsider hits upon a valuable device the patent office stands ready to register his claim, but new devices can make little headway without large capital backing. The independent inventor is likely to be caught between two sets of exploiters. Some existing corporation may think it worth while to pirate the new idea and spend thousands of dollars for lawyers to defend itself against court action. Or the inventor who wins outside financial backing may find himself an unequal match for the profit-making habits of his own promoters and be thrown out while they make fortunes for themselves.

So in the age of large-scale capitalist production patents have become a tool of the few great corporations against their small competitors. But basic patents are sometimes shared among several corporations while these same companies compete in other respects.

Not only size but the general financial power of a controlling group is an element in strengthening monopoly. This may be illustrated in the market for so-called "capital goods" where we often find identity of financial interests selling and buying machines or materials. We have noted above (Chapter VII) the Morgan dominance in a whole series of companies involving the production and use of steel.

Manufacture of machinery is scattered among many companies. Here we find many specialized products that do not lend themselves to mass production. But in their several fields various machine manufacturing

companies have direct or indirect connections with companies which use their products.*

Integration of the successive stages of production is carried to its most complete and logical conclusion, so far as capitalist organization is concerned, when companies engaged in all the processes from raw materials to finished products are brought within control of a single corporation and become a "vertical trust."

Through a slightly different technique the big packers hold a position of monopoly privilege in the wholesale markets for meat. They have a purchase-monopoly over the supply of steers and hogs. In the packing houses they enjoy all the economies of mass production plus extra profits from the development of by-products which cannot be handled economically by smaller packers. They maintain, in coöperation with the railroads, a complete distributing system with their privately controlled refrigerator cars.**

## *Monopoly Profits*

The drive for the higher profits of monopoly becomes increasingly sharp. We have already noted that many of the great industrial mergers were put over by bankers for the sake of immediate profits from the issuing of new securities. This process has always included a marked trend toward excess capitalization, that is, a structure of fictitious capital related, not to the true value of the physical assets of the corporation—land, buildings, equipment—and the funds required for materials and wages, but to profits which the company hopes to make through its privileged connections, patents, and other phases of monopoly. Physical plant itself is geared for peak loads of boom years and steady expansion of output. The goal of modern industrial monopoly is the gathering in of profits large enough to maintain idle capacity and to give "satisfactory" returns on excess capitalization.

Profit advantages of monopoly operate chiefly in four ways: by reducing the cost of materials; by reducing labor costs; by acquiring a relative certainty of markets; and by maintaining (or increasing) the prices received.

Cost of materials may be reduced by a "purchase monopoly"—pushing down below the competitive level the prices paid to scattered producers. Or by the vertical trust method, controlling a necessary supply

* One important monopoly—in shoe machinery—was developed to a high degree through the leasing of machines under contracts by which the shoe manufacturer agreed to install no machine made by any other company and to deal only with the leasing company (U. S. Shoe Machinery Corp.) for all machine parts and machine repairs.

** For percentages of the total market held by the leading corporations in basic industries, see *Concentration of Control in American Industry*, by Harry W. Laidler.

and absorbing into the profits of the trust the profits from production of raw materials required in the manufacture of its principal products.

Wage cutting is the most obvious means of driving down labor cost. But labor cost is also reduced by technological changes which increase the workers' productivity or by devices for speeding up the workers and requiring a greater intensity of labor. Such devices are developed with the growth of large-scale production. They conceal within themselves certain inner contradictions which lead to a more and more aggressive attack on the workers.*

The greater the degree of monopoly, the greater is the relative certainty of a market for the product. This certainty can never be more than relative because capitalist society is so basically unstable that periodically a crisis clogs all the "normal" outlets. Also, the growth of monopoly does not eliminate competition but sharpens the rivalry among great units of industry and banking.

While monopoly is used to lower the costs of production and hold a privileged position in the market, it is also commonly driving for the highest price that can be obtained without unduly restricting the market for the product. In the United States price agreements and monopoly price control (or sales within the United States) are alike supposed to be illegal. Even during the brief period of the NRA (1933-35) the codes allowed various price schemes to prevent "unfair competition" but actual price-fixing was theoretically prohibited.

In spite of legal restrictions and the persistence of competition among rival monopolies, industrial prices were held from 1922 to 1930 at figures that indicate a high degree of monopoly control. Or, in academic language:

> "The statistical record does not definitely establish the existence of harmful price rigidity. We have no test for distinguishing between inelasticity and stability. It is clear that during the period 1922-1929 there was a steady decline in the degree of movement occurring in the prices of individual commodities. This trend may have resulted from increasing stability. But other

* Marx in his development of the labor theory of value analyzes the basic long run trend toward a lower average rate of profit. All the profit drawn by the capitalist class (under whatever name it may be distributed, including rent, interest and profits on stock) is derived from the surplus value created by the workers. It represents the difference between the value workers receive as wages and the total new value added by their labor to the materials and equipment they handle. As constant capital (invested in industrial plant and materials) increases, variable capital (total wages paid to the workers) decreases relatively and at some periods absolutely. The great social reservoir of surplus value tends to fall in relation to the growing volume of capital which this reservoir must supply with streams of profit. Each concern tries to widen the spread between the wages paid for labor power and the total new value created by the workers' labor. Therefore the very forces which in the long run tend to reduce the rate of profit set up a long-term counter trend of increasing productivity, speeding-up and intensifying labor, and repeated attacks on workers' wages. (See *Capital,* vol. 3, part III.)

evidence supports the conclusion that necessary sensitivity to changing market conditions was being lost.[2]

By way of illustration, Mills quotes the prices of bread, steel rails, Maydole hammers, men's gloves, shingles, and smoking tobacco for five years, 1925-1929 inclusive. He might have added (among others) the price of aluminum, the stability of price in anthracite coal and heavy electrical equipment, the bidding on shipbuilding contracts, and the open pegging of electrolytic copper.

Eugen Varga approaches the price question in the United States from another angle. He has repeatedly pointed out that the actual cost of production was certainly not higher after the World War than it was before 1914.[3] Instead, all available evidence indicates that technical progress had reduced the amount of labor embodied in industrial commodities and with it the average cost of production. But when industrial prices dropped from their 1920 peak they remained until the second year of the 1929 crisis far above the pre-war figures.* There was no continuing

| | | | |
|---|---|---|---|
| 1913 | 100 | 1927 | 137 |
| 1920 | 221 | 1928 | 139 |
| 1921 | 140 | 1929 | 137 |
| 1922 | 139 | 1930 | 124 |
| 1923 | 144 | 1931 | 105 |
| 1924 | 141 | 1932 | 93 |
| 1925 | 148 | 1933 | 94 |
| 1926 | 143 | 1934 | 107 |

excess of demand over supply to hold average prices continuously above average cost. The dollar remained firm until 1933 and could not account for the high post-war price level in the United States. Some form of monopoly price control was clearly at work.

We have already noted that the "regulated" monopolies have had the advantage of official stabilization of prices at levels determined by their demand for profits on excess capitalization.

## *Monopoly and Competition*

Almost no absolute industrial monopoly held by a single compact corporation is operating in the United States. The Mellon aluminum trust, electric utilities in their several localities, and the Bell telephone system are the nearest approach to such a monopoly in this country. Because of the strength of petty capitalist interests, including the large farming population, laws have been passed and kept upon the statute books to prevent the growth of single corporations holding within themselves an obvious and nearly complete monopoly in any one commodity.

* Wholesale price index, U. S. Bureau of Labor Statistics, with base shifted from 1926 to 1913:

Here monopoly appears most commonly in a small number of large corporations carrying on a measure of competition modified by more or less explicit common agreement and sometimes linked to identical financial rulers. Such corporations constitute a dominant monopoly in relation to small competitors and in relation to workers, consumers and government. But their inner relations are essentially unstable.

The larger and fewer the competing units the more confused their relation becomes. Each can gain from monopoly agreements but also each corporate unit *must* expand. Its quest of profits demands technical improvements to reduce cost and these tend at the same time to increase capacity and require expansion of markets and development of new products. Monopoly may attempt to hold back technical progress and restrict production, but some unit in the industry always breaks away if it finds a possibility of greater profits than those received from an agreed price or restricted output.

This drive for profits—the basic, relentlessly dominant force in capitalist society—introduces competition even among companies linked with identical financial groups. It involves a special element of weakness in the "community of interest" among several companies under which the Morgan power has functioned. This system worked well enough for the finance capitalists when American industry and world markets were expanding. It cannot satisfy them in the present period of capitalism. The more compact and inclusive the corporate organization and the closer the backing of the government for monopoly within an industry, the more nearly can one or two financial groups and their allies dominate that industry within their own country. This is one reason for the present open attack by finance capitalists on anti-trust legislation and the concessions to monopoly in the National Industrial Recovery Act and its administration.

But even in the rare cases where a 100% monopoly is achieved within one capitalist nation, competition simply reappears with greater sharpness among rival monopolies of competing imperialist countries. Against foreign competition the United States government has always done its part in backing up American monopolies (of whatever degree) against their foreign rivals. A tariff on imports is primarily a measure for limiting foreign competition in the home market. And as monopoly has gained over free competition within the United States the tariff has helped to bolster monopoly prices here while American products have been sold at lower prices in the world market. Openly monopolistic organization for export trade was permitted and is permitted under the so-called Webb-Pomerene Act passed in 1919.

We have noted the rival world groups in chemicals, petroleum, copper and electricity. Even within the General Electric-AEG combine which itself approaches monopoly dominance in heavy electrical manufacture throughout the capitalist world we find only a partial truce between the German and American interests in this field of industry. International cartels which attempt to limit and apportion production and world

markets among rival national monopolies have repeatedly shown themselves more unstable than, for example, the cartels and trusts within a single country like Germany.*

From another angle, large corporations with an important interest in export markets have set up a confused competition within themselves. For example, General Motors and Ford have greatly increased the capacity of their foreign factories and assembly plants so as to produce behind the tariff walls of other countries while even during the boom some of their plant capacity and workers in the United States were left in idleness. And conversely, the rayon industry in the United States has been developed partly by the duPont company but chiefly by subsidiaries of the European international rayon combine.

Certain forms of basic competition attack strong monopoly groups within their own countries. Development of substitute materials, new processes, and new products has made increasing disturbance with the increasing size of capital investment in established industries and the general slowing up of market expansion. Obvious examples of this in recent years within the United States have included the development of motor traffic which has taken passengers and freight from the railroads; displacement of steel by alloy steels and aluminum; increased use of fuel oil and hydro-electric power in competition with coal; long-distance piping of natural gas to communities in which manufactured gas had held a monopoly; development of chemical yarns and fabrics in competition with cotton, silk and leather. In the mineral industries, increasing amounts of scrap have been available, sometimes creating serious inroads on the market for virgin metals.** The more successful monopoly proves itself in its record of prices and profits the more aggressively some outside group will attempt to enter its field. The higher the price of a metal, the larger the volume of scrap placed on the market.

Much of this promotion of new processes or changing materials or substitute products has been put over by large companies already strong in some other field. Monopolies in separate industries become rivals as each tries to expand its activities. Here again the drive for profit required by each corporate unit has brought inner contradictions within the Morgan empire. We have noted the Morgan interest in developing automobiles and motor traffic which compete with Morgan railroads. Now we see General Motors proposing to manufacture Diesel-electric engines in com-

* For a brief but comprehensive record of international monopolies and other international concerns see *International Combines in Modern Industry*, by Alfred Plummer. London, 1934.

** It was reported that the Mellon aluminum trust with its complete control of new aluminum in the United States was attempting to require from large manufacturers a certain ratio of scrap sold back to the trust as a condition for receiving supplies of the new metal. (See O'Connor, *Mellon's Millions*, p. 178.) In addition to the uncertainty of competition from scrap, a new threat to the Mellon monopoly has appeared in the discovery by an outside corporation of a process for deriving aluminum from alunite ore.

petition with Baldwin Locomotive Works. And note that three Morgan concerns (General Electric, General Motors, and American Radiator & Standard Sanitary) are among the eight leaders in the field of air-conditioning.

*The financial overlords are unable to coördinate the activities of the separate corporate organisms which they have created.*

Forces far more fundamental than legal restrictions written into the statute books perpetuate in the United States the competition which exists side by side with monopoly.

> Free competition is the fundamental property of capitalism and of commodity production generally. Monopoly is the direct opposite of free competition; but we have seen the latter being transformed into monopoly before our very eyes, creating large-scale production and squeezing out small-scale production, replacing large-scale production by larger-scale production, finally leading to such a concentration of production and capital that monopoly has been and is the result.... And at the same time the monopolies, which have sprung from free competition, do not eliminate it, but exist alongside of it and over it, thereby giving rise to a number of very acute and bitter antagonisms, points of friction, and conflicts.[4]

Even when monopoly interests cut across national boundaries and set up a degree of international unity they cannot eliminate conflict. The apparent unity is never solid and complete. Some competing forces remain outside, while national rivalries tend to undermine the unity from within. And the very measures by which a highly organized monopoly attempts to build up superprofits tend to upset the always unstable economic and political balance of the capitalist world. Instead of opening the way to an "organized" capitalism, with peaceful, orderly planning of production and markets, the most extensive monopolies really sharpen the conflicts of all kinds which are inherent in capitalist society.*

* For a discussion of this point see Lenin's Introduction to *Imperialism and World Economy* by N. Bukharin, in Lenin, *Collected Works,* Vol. XVIII, pp. 399-403. International Publishers, New York.

Part Three

# CAPITALISM IN CRISIS

# CHAPTER XX

# WALL STREET'S FOREIGN EMPIRE

UNITED STATES imperialism of the past forty years has grown with the increase in foreign investment of American capital. This amounted to half a billion dollars in 1900, two and a half billion dollars in 1913, and about $16 billion in 1930, apart from the $10 billions of government loans to the Allies during the World War and the economic crisis which followed it.

True to the world pattern of imperialism sketched by Lenin, this foreign investment, or export of capital, has been carried out by "monopolist combines of the biggest entrepreneurs." Big corporations operating in the United States and tied in with Wall Street finance, have reached out for foreign holdings: metal mines, oil wells, tropical plantations, cattle herds and packing plants, lumber reserves and paper mills and factories and sales apparatus in foreign countries. Holding companies, set up in Wall Street, have acquired control of foreign utilities. Banks have organized foreign branches. Morgan, Kuhn Loeb, Dillon Read and other private bankers, and National City Bank, Chase National Bank, Guaranty Trust Co. and a few other big commercial banks have mobilized billions of dollars of private capital for the purchase of bonds issued by foreign governments and foreign corporations. The $16 billion total is about evenly divided between "direct" investments of American corporations abroad and bonds issued by foreign governments and foreign corporations.

Political power resulting from such a volume of foreign investment functions in many different ways: openly through colonies, protectorates, intervention and spheres of influence; behind the scenes through propaganda and intrigue, through a dominating alliance with the capitalists in a weaker country, and through the sheer weight of financial strength.

Since the United States entered late in the inter-imperialist race, its colonies are relatively small and most of the foreign investment is placed in countries where imperialist power must take the indirect and less obvious forms.

## *Colonies and Protectorates* *

Sugar capital in Hawaii and investments in sugar, tobacco, mines and railways in Cuba gave the starting points for the colonial expansion of 1898.

* For area, population, and investment of American capital in colonies and protectorates, see Appendix I, p. 338, and Appendix J, p. 339.

PRIVATE LONG-TERM INVESTMENTS ABROAD *
(as of 1930)

| | Direct Investments of American Corporations | All Other Investments | Total |
|---|---|---|---|
| | in millions of dollars | | |
| Canada and Newfoundland | 2,048.8 | 1,892.9 | 3,941.7 |
| Mexico, Central America & West Indies | 2,002.9 | 562.0 | 2,564.9 |
| South America | 1,631.0 | 1,410.9 | 3,041.9 |
| Europe | 1,468.6 | 3,460.6 | 4,929.2 |
| Asia | 444.8 | 645.1 | 1,089.9 |
| Oceania | 154.6 | 264.7 | 419.3 |
| Africa | 115.3 | 2.5 | 117.8 |
| Total | 7,866.0 | 8,238.7 | 16,104.7 |

* Sources and Tables showing the separate countries are given in Appendix I, p. 338.

Annexation of Hawaii had been proposed in 1893 after a sugar-promoted revolution had overthrown the Hawaiian government, but it was not carried through until five years later. In 1898, Hawaii became a territory of the United States. President McKinley's advisors were swayed not only by the demands of the American sugar men in Hawaii but also by the desire to gain permanent title to the Pearl Harbor naval base. This had been used by the United States since 1884 under a treaty with the Hawaiian government.

In Cuba, the American-Spanish war of 1898 gave the American capitalists what they wanted. After the victory over Spain, Cuba was denied a seat at the Paris peace discussions between Spain and the United States. Then the "independent" Cuba was tied to the United States with special tariff reductions, and a semi-protectorate relationship was set up under which the United States reserved the right to supervise Cuba's dealings with other nations and to intervene if necessary to repress "internal disorders." At the same time the United States retained a permanent naval base in Cuba.

Cuba has been second only to Canada in the total volume of capital invested by American corporations. Machado, the bloody tyrant who ruled Cuba from 1925 to 1933, had been a local executive of Morgan utilities. When he was overthrown by a revolutionary general strike, various elements in Cuba struggled for power. The United States sending battleships to Cuba and withholding recognition threw its influence openly against the "left" government of Grau Martin. His successor, Mendieta, a hand-picked candidate cordially endorsed by the American minister at Havana, returned to practically the same despotic, violent tactics as

Machado: serving the American corporations and bloodily suppressing all workers' and peasants' organizations.

"Disorders" in Cuba had been advertised as the cause of the Spanish War, but the United States also took from Spain the island of Puerto Rico, like Cuba at the entrance to the Caribbean; and for good measure it drove Spain from the Pacific. The little island of Guam and Spain's large tropical colony, the Philippine Islands, southeast of China, were added to the empire of the United States.

The Philippine Islands were not only taken from Spain by force but were held by the United States after three years of hard-fought warfare against the Filipinos who demanded independence. McKinley announced his Philippine policy as the result of prayer, but his prayer followed study of a detailed report on the rubber, sugar, cocoanuts and other tropical products of the islands, and detailed State Department memoranda on the plans that had been laid by Germany and by Japan to dislodge Spain and take the islands.

American investment in the Philippines has remained relatively small —less than $175,000,000—but the United States is economically dominant. It takes about four-fifths of the exports from the Philippines and supplies about two-thirds of their imports, whereas the United Kingdom and Japan together supply only about 14% of the Islands' imports.[1]

Conflicting economic interests developed within the United States in relation to the Philippines. Those who control the profitable gold mines on the island of Luzon and look forward to development of chrome and manganese deposits have opposed independence. But the powerful beet-sugar and large dairy interests in this country have demanded a tariff barrier against Philippine sugar and cocoanut oil. Their lobbies played an important role in pushing for the modified independence which was granted in 1934 and which sets up immediate restrictions on the entrance of Philippine products into the United States.

The chief value of the Philippines has been the magnificent harbor and naval and military base which they provide in the Far East. This exclusive privilege will doubtless be retained by the United States in the negotiations which are to follow the granting of so-called "independence." * Aid for the new semi-independent Philippine government from an advisory military commission of the United States Army was authorized by Congress in May, 1935.[2]

Already in 1898 deliberate expansion of Pacific trade and investment

* Granted as from 1946 in an act of March 24, 1934. In accordance with this act, a constitution for the transition period was drafted by a Philippine constitutional convention in October, 1934, and approved by President Roosevelt in March, 1935. It was submitted to a plebiscite and accepted. The terms of "independence" are opposed by the Communist Party of the Philippine Islands and the Communist Party of the United States, which demand immediate and unconditional separation of the Philippine Islands from the United States. They are also opposed by the non-Communist "Sakdalistas" who attempted an armed uprising, bloodily suppressed, in May, 1935.

and naval ports was very much on the order of the day. So the United States picked up other footholds wherever it could find them. The tiny Wake Island in mid-Pacific was claimed by the Philippine expedition on July 4, 1898. Tutuila with the fine harbor of Pago-Pago and the smaller islands of the eastern Samoa group were secured by the United States in a three-cornered treaty with Great Britain and Germany in 1899. Midway Island, a coaling port and cable station northwest of Hawaii had been acquired in 1859.* In 1935, islands in the possession of the United States were being developed as stations in a trans-Pacific air route from San Francisco to Manila, a measure of military preparedness for war in the Far East.

Also in 1898, during the war with Spain, plans were maturing for the building of the Panama Canal which was to bring Far Eastern ports and the west coast of South America much closer to eastern United States and would make possible a rapid shifting of American warships between the Atlantic and Pacific oceans.** But the Colombian senate in 1903 refused to grant the United States a 99-year lease on a strip across the Colombian state of Panama. Almost immediately a "revolution" followed within Panama, and United States marines were landed to prevent Colombian troops from reaching Panama City. The state of Panama seceded from Colombia and set up a new "independent" republic which without delay secured recognition by President Theodore Roosevelt and arranged with J. P. Morgan & Co. to be its fiscal agent in the United States.

Just fifteen days after the Panama "revolution" was launched, the new republic signed a treaty (Nov. 18, 1903) "leasing" to the United States in perpetuity a zone ten miles wide for the building and maintaining of the Panama Canal. Under the Hay-Pauncefote treaty with Great Britain in 1901 (as summarized by Moon) the canal was to be "open to the merchant vessels and warships of all nations, in war and in peace, without discrimination or inequality of tolls."[3] But the canal (which was opened for navigation in August, 1914, the first month of the World War) has been strongly fortified and is recognized as one of the most important strategic points in the naval and military scheme of the United States.

Other American naval bases maintained in the Caribbean area outside of continental United States now include Guantanamo, Cuba, and Puerto Rico (noted above); Samana Bay, Santo Domingo, under treaty of 1907; Mole of St. Nicholas, Haiti, under treaty of 1915; Fonseca Bay and Corn Islands, Nicaragua, under Bryan-Chamorro treaty of 1916; Virgin Islands, purchased from Denmark in 1917.[4]

* The United States has also claimed since mid-nineteenth century several tiny guano islands in the Pacific of which three are dignified with names: Baker, Howland, and Jarvis.

** New York was brought nearer to Shanghai by 1,500 miles; to Japan, by 3,000 miles; to Valparaiso, Chile, by almost 4,000 miles; to Peru by 6,000 miles, according to Parker T. Moon in *Imperialism and World Politics*, p. 427.

Rapid extension of United States interests in Central America and the islands of the Caribbean through United Fruit Co. and other fruit and sugar companies, through railways, utilities, oil concessions and mines, and through government financing by American bankers, has pushed American capital far ahead of British capital in the Caribbean area. Total American long-term private investments in Central America and the West Indies were estimated at about $1.5 billion in 1930, apart from the billion in Mexico.

Increasing financial interest has been backed up with some political action by the United States such as long-continued intervention or the administering of customs revenue in several countries. Such a "protectorate" relationship has been most apparent in Panama since 1903, in the Dominican Republic since 1904, in Nicaragua since 1910, and in Haiti since 1915. But none of the small Central American republics has been able to maintain a genuine independence.

Details of intrigue and conflict between American and British interests in this area were well described by Parker T. Moon, of Columbia University, in his *Imperialism and World Politics*. Moon summarized the situation as follows:

> In general, it may be said that since the Panama revolution, American bankers have been rapidly acquiring control of Central American railways and other enterprises, and, in coöperation with the Department of State, have been extending control over the finances of Central American governments. This is "dollar diplomacy." It has been carried on by Democrats and Republicans alike. It has been supported by marines, warships, and what we might call naval diplomacy. It has made Central America a sphere of interest of the United States, in which European intervention would be resented, in which concessions to European capitalists may not be made without danger of offending the watchful eye of the Department of State, in which American naval and economic interests hold undisputed supremacy.[5]

The British retain a political foothold on the mainland in British Honduras, and several small islands are British, French or Dutch, but with these minor exceptions the entire Caribbean region is recognized as actually subject to the United States.

Liberia, a small Negro nation on the west coast of Africa, completes the list of informal "protectorates" of the United States. The Liberian Republic was organized in 1847 by Negroes who had emigrated from the United States. It had been largely ignored in this country and was on the road to becoming a British protectorate when in 1911 the United States started a long chain of negotiations through which American influence has become paramount. In 1912, an international loan arranged under the leadership of J. P. Morgan & Co. was substituted for a British loan, and a board with an American chairman (designated by the President of the United States) was substituted for a British collector of customs. An American army officer was installed as commandant of the Liberian Frontier Force.

In 1926, the Firestone Tire & Rubber Co., with the backing of the U. S. Department of State, became the supreme power in Liberian affairs. This followed a deliberate move to develop large rubber properties under American control and thereby destroy the British monopoly in high-grade plantation rubber. Firestone acquired a 99-year lease on a million acres of land and through a subsidiary, the Finance Corporation of America, arranged a loan of $5,000,000 to the Liberian government for the retirement of the "international" loan.* Under these contracts Firestone subjected the country to a triple exploitation: low payment for the rubber concession (6 cents a year per acre), starvation wages and speed-up for the native workers, and high charges for the loan. A clause in the Firestone agreement makes Liberia responsible for securing and maintaining an adequate labor supply—a clear invitation to forced labor. Public works undertaken by the Liberian government with part of the proceeds of the loan have consisted chiefly of roads and bridges bringing the Firestone acreage into quicker communication with the ports.

In 1929, charges of forced labor within Liberia and of slave trade (profitable to Liberian officials) were brought before the League of Nations.** The League under British guidance recommended intervention by "advisers" responsible to the League and a considerable easing of the terms of the Firestone contracts. But the State Department and the Firestone interests so manipulated the whole affair that the League has withdrawn its offers of "assistance." American officials continue to supervise customs and budget, under the terms of the Firestone loan contract. President King who had accepted the Firestone contracts was compelled to resign in face of the charges of graft and cruelty in the first League report. His successor, Edwin Barclay, is supposed to be more independent than King.[6]

Recent history in Liberia is important as reflecting the conflict between American and British imperialism. It is also important as reflecting the class lines within Liberia. For besides the white imperialists there are three distinct native groups. The native bourgeoisie (chiefly descendants of American Negroes) are split into those who gain by serving the imperialists and those who oppose all phases of white domination. Both are distinct from the masses of illiterate native Africans who do the hard physical labor of Liberia and are exploited both by the white imperialists and by the native petty capitalists and officials.

## *Mexico, Colombia and Venezuela*

On the borderline of independence and yet definitely within the sphere of influence of the United States are the three large countries: Mexico,

* Only half of this amount has been advanced.

** On labor conditions within Liberia, see Walter Wilson, *Forced Labor in the United States*, pp. 131-136.

Colombia and Venezuela. In these three countries American capitalists held in 1930 about $1.6 billion of investment.

In *Mexico,* a large government loan, $110,000,000 had been underwritten by Morgan in 1899, but much of it was floated abroad through the Morgan European connections and only a minority of the bonds were sold in the United States. This loan and later ones, including loans to Mexican railways for which the Mexican government assumed responsibility, had established long before the World War a considerable measure of Wall Street control over Mexican financial policies.

Silver, gold and copper had drawn in American capital before the turn of the century. American Smelting and Refining Co., the Cananea company (later acquired by Anaconda), and the Phelps Dodge Corp., together with many much smaller mining concerns, had a total mining investment in Mexico estimated at $80,000,000 in 1902.

The rich oil reserves which brought Mexico in 1911 to third rank and from 1918 to 1926 to second rank among oil-producing countries of the world were practically untouched until 1901. Then the American Doheny was first in the field, followed by the British and then by Standard Oil. Competition was sharp between British and American oil interests and their struggle for domination included much political intrigue. It is not necessary to rehearse here the details of the story which are easily available in several sources.*

But it is important to note that President Wilson openly interfered against the British candidate, Huerta. He used a flimsy pretext about a pretended insult to the flag in order to send marines to Vera Cruz in April, 1914, where they took the opportunity to block a shipment of arms intended for Huerta. At that time United States oil interests were backing Carranza against Huerta, and Wilson supported Carranza on the ground that a "constitutional" government was necessary for stability.

After Carranza was installed and recognized by the United States, Villa broke with him and started a revolt in the northern provinces. Threatened with defeat, Villa staged a raid over the border into New Mexico, knowing that intervention by the United States would divert the Carranza forces to drive back the Yankees. Wilson rose to the bait and not only sent an army into Mexico in 1916 but mobilized 100,000 men of the National Guard at the Mexican border. Villa escaped, and the "loyal" Carranza was thoroughly roused against the Yankees.

It was not surprising that Carranza's constitution in 1917 failed to satisfy his United States supporters. Especially its Article 27 threatened to interfere with the unlimited exploitation of oil, copper, and other mineral resources for the profit of non-Mexican corporations. Obregon, who overthrew Carranza in 1920, was refused recognition by the United States until 1923. He had first to satisfy American capitalists that Article 27 would not be applied to any mineral lands acquired by American

* For example, Moon, *Imperialism and World Politics;* Nearing and Freeman, *Dollar Diplomacy;* Ludwell Denny, *America Conquers Britain.*

corporations before 1917. Also his finance minister had to come to terms with the bankers' committee (headed by T. W. Lamont, a Morgan partner) and resume payment of interest on Mexican government bonds.

The following year, Calles (who succeeded Obregon in 1924) precipitated a new "crisis" for the American capitalists by reaffirming Mexico's inalienable national dominion over mineral resources. In 1927, Dwight W. Morrow resigned from the Morgan firm in order to go to Mexico with full diplomatic authority from the United States to bring the Mexican government into line. Morrow's success is described by J. Reuben Clark, Jr., who succeeded him as ambassador to Mexico:

> There ensued [February-March, 1928.—*A. R.*] several weeks of negotiations, which were characterized by the utmost friendliness on both sides, and during all of which Ambassador Morrow kept in the closest touch with the local representatives of the leading American oil companies. At the end of these negotiations the Mexican authorities framed amendments to the Petroleum Regulations which in the opinion of Ambassador Morrow and the local representatives of the leading American oil companies did harmonize the Regulations with the Law and did eliminate the substantial objections made to the old Regulations. The amended Regulations were signed by President Calles on March 27, 1928, and promulgated the following day.[7]

*Colombia* resented most deeply the encouragement by the United States of the Panama revolution and secession in 1903, after the Colombian government had refused to grant the United States a strip of land and the right to build a canal across Panama. This left the Colombians more ready to welcome British capital than American. So in 1913 American diplomacy interfered again. Wilson and his representatives in Bogota and London checked the granting to British oil interests of a large concession which included the right to develop land along the boundary of Panama.

Vast oil concessions had before this been granted to two Colombian patriots as reward for services rendered, but lacking the large capital required to develop them the two patriots sold their rights: de Mares in 1916 to the Tropical Oil Co. (later acquired by Standard Oil Co. of New Jersey) and de Barco to the Colombian Petroleum Corp. (1918), in which the Mellon-controlled Gulf Oil later acquired a 75% interest. These American corporations were hindered by Colombian land laws limiting the exploitation of mineral resources by foreign interests, and they found themselves blocked in securing the long rights of way required for pipelines to connect their inland concessions with the coast. Also, after the war, Wall Street was looking for opportunity to lend money to the Colombian government.

So once more the United States government intervened (1921), offering Colombia $25,000,000 by way of indemnity for the secession of Panama. Behind this gesture of friendship was the fact that through this payment from public funds the United States cleared the way for its bankers and oil men in Colombia.

The next recorded interference was a quiet affair in 1931, managed by the State Department, the National City Bank, and the Mellon interests, to adjust fresh difficulties raised by Colombia over the Barco concession.

Of great importance in relation to Colombia is the fact that Colombian territory provides another possible canal route. For it is obvious that the Washington government will never permit the building of a rival canal by any other power.

*Venezuela* had been openly claimed as within the United States' sphere of influence in two episodes which preceded the great post-war influx of American capital. In 1895 when Great Britain demanded extension of territory for British Guiana at the expense of Venezuela, President Cleveland announced the right and duty of the United States to determine the correct boundary and "to resist by every means in its power" any appropriation by Great Britain of territory which might be awarded by the United States to Venezuela. Wall Street was not yet alive to the importance of Venezuela's mineral resources and Cleveland's aggressive application of the Monroe Doctrine was immediately softened by diplomacy. But the fact remained that when this boundary question was settled in 1899 by an "international" commission Venezuela was represented not by two of her own citizens but by two justices of the United States Supreme Court.

Again, in 1902, when British, Italian and German warships appeared at La Guayra and threatened a blockade of Venezuelan ports to compel adjustment by Venezuela of the demands of European creditors, President Theodore Roosevelt indicated at once that such action was not permitted to European powers.

Both British and American oil companies (chiefly Royal-Dutch Shell, Standard Oil Co. of N. J., and Gulf Oil Corp.) have been expanding their holdings and their production in Venezuela since the war. The British interests are strong, but American capital has outstripped the British. Gomez the late bloody dictator who seized power in 1908 encouraged foreign capital, playing one group against another and exacting a high price for his favors. Also his regime set a world record for brutal suppression of political opposition and of workers' attempts to organize. In the absence of "disorders" pretexts for open intervention on behalf of the capitalists have been lacking since the oil era began.

## *In Other South American Countries*

The Monroe Doctrine was first formulated in 1823 after a wave of revolutions in the South American continent had brought independence from Spain and Portugal. President Monroe announced "as a principle in which the rights and interests of the United States are involved, that the American continents, by the free and independent condition which they have assumed and maintain, are henceforth not to be considered

as subjects for future colonization by any European powers." This principle was often repeated and further developed until it has been recognized as not only warning all other powers against aggression and interference in South American affairs but as giving the United States a position of special leadership throughout the continent.

This leadership was expressed in Pan-American conferences, started in 1889, to promote "friendship," that is, closer business relations. From these conferences grew the Pan-American Union, under United States leadership, backed in the United States by a Pan-American Society whose council includes officials of the biggest corporations operating in South America.

Meantime, however, from the beginning of modern British imperialism, British capitalists were active in trade and investment in South America. Later, much German capital followed the British. Development of South American resources was still in its early stages when American corporations began their search for foreign minerals and tropical products, but until the World War all the South American countries were economically closer to Great Britain than they were to the United States. In 1913, the United States had a trade lead in Brazil, Colombia and Venezuela. It was pressing the British in Peru and Ecuador. But in capital investment the British held first place in every South American country except Bolivia.

Increasing economic power of the United States was already apparent in 1913. Not only Bolivian tin, but copper in Peru and Chile and meat packing in Argentina and Paraguay were already largely in the hands of American corporations. Standard Oil had begun to scout for oil concessions and had begun to produce in Peru. Transportation was chiefly British, but J. P. Morgan & Co. and W. R. Grace & Co. controlled the Chilean-Andean railroad, and Americans had a strong minority interest in river boats in Argentina and Brazil. Americans also controlled the boats on the Magdalena River in Colombia. Docks and harbor works had been developed by the American meat packers (Armour, Swift and Wilson) in the River Platte region, by United Fruit Co. in Colombia, and by Standard Oil in Peru. The British still dominated the Atlantic carrying trade and the cable lines. Also until the World War, South American trade was financed chiefly through British banks. The National City Bank opened its first South American branch at Buenos Aires in 1914.

When Britain and Germany went to war, the more far-seeing capitalists in the United States seized the opportunity deliberately to capture South American markets and to strengthen their hold through capital investments. Many new branches of American banks were opened. A dozen or more of the biggest exploiters, including J. P. Morgan, National City Bank, Percy A. Rockefeller, Joseph P. Grace, Stone & Webster, and others joined in setting up a new holding company, the American International Corp., whose subsidiaries drew large profits from constructing docks, warehouses and utilities in South American countries.

The trading lead secured by the United States during the war was

held in the face of bitter competition when British industry was freed from war production. The United States has continued to furnish a larger share than Great Britain in the foreign products imported by every South American country except Argentina and Uruguay. And United States investments are now larger than British investments except in Argentina, Brazil, Paraguay, and Uruguay.

Oil, copper, and other minerals have been tremendously developed. During the post-war boom, the Guggenheim interests joined forces with the British and set up a nitrate trust in partnership with the Chilean government. Automobile plants were established in Argentina and Brazil. Ford started to exploit his vast rubber possessions in the Amazon valley. British monopoly in Atlantic shipping was broken by American lines. Morgan utilities acquired a great network of companies controlling electric light and telephone service. American planes, owned by American capitalists and flown by American pilots, have practically set up a new monopoly of air travel and air mail, encircling the South American continent.

While this "direct" investment was rapidly expanded, Wall Street was encouraging South American governments and their states and municipalities to borrow to the limit, often for projects involving purchase of American materials and under terms which subjected the governments to Wall Street dictation.

More American capital was poured into Argentina, Chile and Brazil than into any other South American countries. Industrially more developed than the northern, more tropical, part of the continent, they have received two-thirds of the total $3 billions of United States investment in South America. But in Argentina and Brazil the British investment is three times as large as the American. (For U. S. estimates by countries, see Appendix I, p. 338.) Elsewhere, except in the small countries of Paraguay and Uruguay, American capitalism holds the lead.

This economic penetration by the United States beyond Caribbean area has, of course, involved some measure of political control. Part of the process was described twenty years ago by Willard Straight, one of the most skillful agents of American imperialism in China.

> The great lending nations ... utilize their investing power as a national asset. By building up the weaker nation through financial reorganization and the development of its resources, they create for themselves a financial and political influence which they convert to their commercial advantage. In this task Government, bankers, merchants and manufacturers, supported by the investing public, which the Government represents, and of which the bankers, merchants and manufacturers are an integral part, coöperate for the common good [of the capitalists.—*A. R.*].[8]

Large corporations expect governments to serve them. And occasional glimpses are granted to the outside world of the intrigue and corruption by which American capital has swayed internal policies, secured concessions, and promoted "revolutions" in South American countries. If their "rights" and privileges are interfered with, they have the help of the

State Department and its diplomats. When these fail, a quiet threat of force brings the weaker country into line.

Several South American nations in which American investment has outdistanced British have "invited" United States experts to study their financial structure and "advise" on reorganization of budgets and currency. Such "advice" has been under way in South America since Prof. E. W. Kemmerer went to Colombia as financial expert in 1923. And when four countries (Bolivia, Chile, Peru, Colombia) held a conference of their central bank officials in 1931, Kemmerer attended as "adviser" representing the Federal Reserve Bank of New York which is semi-officially tied to the U. S. Treasury. The conference decided to transfer to the United States gold reserves which had been on deposit in London and to establish closer relations with the Federal Reserve Bank of New York.[9]

Americans have also held other strategic points. In Peru, for example:

> ...In return for American loans he (Leguia) had to give American bankers "guaranties...." Thus Americans administered Peru's customs service; an American mission ran Peru's navy and aviation corps; an American mission, acting "on behalf" of the Peruvian government, administered tax collections; an American financial expert drew up Peru's budget; legislation involving the exploitation of oil fields and copper mines was drawn up to favor the foreign companies to the detriment of Peru's interests. Leguia's laws and the American tax collectors saw to it that foreign-côntrolled oil and mining and American industries in general were almost entirely exempt from taxation.[10]

Military advisory commissions from the U. S. Army have functioned in Ecuador and Brazil, as well as in four of the Caribbean semi-dependent countries (Dominican Republic, Haiti, Nicaragua, and Guatemala.)[11]

The struggle between British capital and American capital; between British goods and American goods; between British domination and American domination continues. The wave of American economic conquest has rolled southward beyond the Caribbean. It has submerged British influence on the western coast. It threatens British influence in Brazil. It has been warded off in Argentina only by special trade agreements between London and Buenos Aires.

When the old Bolivia-Paraguay dispute over the northern Chaco flared into open war, it marked one episode in the unceasing conflict between the two English-speaking empires. Bolivia, long a province of American capital (with Rockefeller interests dominating its tin and its oil), demands the disputed area for two basic reasons. The mineral resources of this jungle territory include oil, although this is still undeveloped. And possession of the northern Chaco would give land-locked Bolivia legal access through its own territory to the Paraguay River, a navigable international waterway. Since Bolivia is dominated by American capital and Paraguay is backed by Argentina in which British in-

fluence is strong, the war between the two countries has had much more than local significance.

## *Imperialism and the Colonial Workers*

American capitalists invading Cuba, Mexico, and other regions of Central and South America found a comparatively small class of free, landless workers. Conditions varied from one country to another, but the masses included great numbers of peons (landless workers supposedly free but tied to plantation owners by a growing burden of debt) and other fairly independent natives still living in primitive communes or cultivating small patches of land. At one extreme were Mexico where half the rural population was in peonage [12] and Chile where over half of the cultivated land was in great estates operated chiefly by sharecropping tenants.[13] At the other extreme was Haiti where a sturdy peasant population had maintained small holdings after the great estates had been broken up and the French rulers expelled in the Haitian revolution of 1804. Agricultural methods were very primitive. For all the laboring native population, whether peons or small landholders, life was meager and difficult. But actual proletarians—landless workers compelled to seek employment and at the same time free to leave or be dropped by an employer—were relatively few.

The capitalist invaders became great landowners and often helped to create a proletariat. In Cuba, where nearly 90% of the cultivable lands are owned or held under long lease by American interests,[14] the small Cuban owners were practically driven off the land and compelled to seek employment. In Haiti, one chief function of the United States intervention in 1917 was to compel acceptance by the Haitians of a constitution which would allow foreigners to acquire title to land.[15] * In Mexico, one-fifth of the privately owned land is now held by foreign capitalists and corporations.[16] United Fruit is cultivating over 400,000 acres in Cuba, Jamaica, and six countries from Nicaragua to Colombia, and owns over three million acres still unimproved. United Fruit has used its control of strategic water rights, railroad lines, roads, and bridges and a policy of usurious loans and mortgage foreclosures to deprive "independent" farmers of their lands and convert them into propertyless agricultural workers.** Whether on plantations or at mines, oil wells, construction works or refineries, the imperialist concern has frequently taken over or developed the same type of semi-servitude prevailing on the plantations inherited from the Spanish and Portuguese invaders. Paying low cash

* This constitution was largely drafted by Franklin D. Roosevelt, then Assistant Secretary of the Navy.

** See Luis Montes, *Bananas,* International Pamphlets, no. 35. For a more detailed study of United Fruit Co. policies see Chas. D. Kepner and Jay Soothill, *The Banana Empire.*

wages and maintaining company villages and company stores, the corporation could hold its workers bound by their burden of debt.

Speeded up, exposed to accidents in mines and oil fields, shaken with malaria and tropical fevers to which the foreign capitalists' more "efficient" methods of exploitation brought increased exposure, colonial workers found their existence definitely worsened by the imperialist invasion. At the same time the displacement of a varied agriculture by a few export crops and minerals for the world market made the workers completely dependent on the imperialist corporations. When the sugar crisis hit Cuba and the world economic crisis brought to a standstill the production of copper and nitrates (Chile, Peru), and all production was slowed down, colonial workers were plunged into the extreme destitution of long-continued mass unemployment. The governments, burdened with a huge indebtedness to foreign capitalists, found it difficult to provide public works or relief.

Revolt against exploitation by the imperialists had found expression in militant strikes before the world economic crisis. Most notable was the bloodily suppressed strike of the United Fruit Co. workers in Colombia in December, 1928. The number of strikers killed was variously estimated at from 200 to 1400. And before the crisis, harsh repressive measures against strikers and "agitators" were already the rule throughout the area of American influence. Diplomats of the State Department encouraged the "independent" governments in tactics savoring of fascism. In Peru, for example, the American minister at Lima was a faithful messenger from the (Morgan-Hearst) Cerro de Pasco mine management to the Peruvian government in 1930, transmitting the company's list of forty labor leaders and securing the immediate intervention of Peruvian soldiers who shot the mineworkers into submission.[17]

Stirrings of revolt among the colonial workers have coincided with the widespread movements in several countries of native middle class elements against imperialist domination. The succession of different governments in Mexico, Cuba, Nicaragua, Colombia, Peru, Chile, has been the result of a complex interplay of forces: working class and peasant revolt against exploitation, native small capitalist revolt against the big capital of the imperialists and the native agents of imperialism, and the perpetual conflict between British and American interests.

The Roosevelt government has made certain gestures which have been hailed as marking the end of American imperialism! In December, 1933, President Roosevelt disclaimed for the United States the sole right of intervention in South American affairs and called "the maintenance of law and the orderly processes of government" "the joint concern of the whole continent in which we are all neighbors."[18] Later this general statement was made more explicit. Under an act approved by the administration and signed by the President on March 24, 1934, future and somewhat qualified independence was granted to the Philippine Islands. In May, 1934, Congress repealed the Platt Amendment under which the United States had several times intervened officially in Cuban affairs.

Instead of marking the end of imperialist domination, these actions may be expressing the confidence of the imperialist government in its invisible machinery of control and in the "loyal" intentions of the present rulers throughout the colonial and semi-colonial domain. More positively, they appear to be a deliberate appeal to native capital and native politicians for greater unity of action against the rising revolutionary consciousness of the colonial workers and peasants. This cannot but be an unstable basis for imperialist domination as the native capitalists themselves are still smarting under their economic dependence upon Wall Street.

## *China*

In 1899 when the United States had already taken its Far Eastern foothold in the Philippine Islands, McKinley's Secretary of State John Hay sent a vigorous circular note to the Great Powers which claimed a special interest in China. He asked consistent application of the Open-Door principle for American business interests.

The European powers and Japan had gone far beyond such special privileges as extra-territoriality and the foreign fixing of Chinese customs tariff which had been wrested from China in mid-nineteenth century wars.* Great slices of territory had been cut away from the Chinese Empire, reducing its area to little more than half its former size. The powers were maneuvering for a future partition of the rest of China and meanwhile Japan, Tsarist Russia, Great Britain, Germany and France had set up spheres of interest within the "independent" territory.

In the face of these expanding areas of special privilege for capitalists of other countries, the United States, grown consciously imperialist in its aims, saw that it must act quickly and definitely to maintain for its citizens their considerable share in the China trade and to secure at least an equal chance with the British and other capitalists for investment in railways and the development of China's natural resources.

The year after Hay's historic announcement of the Open Door, a revolt of the Chinese against the Manchu dynasty was skillfully turned by the Empress Dowager into a mass attack on the foreigners in China. The United States had maintained a policy of "friendship" for China, which was tactically valuable in the long competition with other nations for the China trade. The Open Door announcement gained force from this traditional background. But when the Chinese in the Boxer Rebellion of 1900 attacked Americans as well as Europeans, the United States landed its marines to do their part with British, German, French, Italian, Japa-

* Extra-territoriality is the privilege granted to citizens of imperialist powers in China to remain outside of the jurisdiction of Chinese law and Chinese courts. Ambassadors and legations always enjoy extra-territorial privileges. Only in a semi-colonial country are these privileges extended to other foreigners and their dwellings.

nese, and Russian forces in protecting the lives and property of the imperialists. Ever since then the United States has maintained detachments of marines in Peking (now Peiping), Tientsin and Shanghai. Warships hover about the China ports and cruise at will up the Yangtze to Hankow, 600 miles from the sea, and a small fleet of shallow-draft river gunboats, specially built in Shanghai, is kept on duty in the upper Yangtze above Hankow.

When Japan and Russia went to war in 1904 over the control of Manchuria (then a part of China), the Japanese government received financial support from Kuhn, Loeb & Co. and E. H. Harriman, the railroad magnate who was planning to invade Manchuria with an American line. The treaty marking the victory of Japan over Russia was negotiated and signed in the United States and included a reaffirmation of the Open Door. But in actual practice Japan has never accepted the Open-Door principle as applying in Manchuria.

The doctrine of the Open Door was first successfully translated into cold economic terms in 1909 when the United States government and a group of bankers headed by J. P. Morgan & Co. demanded that these American bankers must participate on equal terms with the British, German and French banking groups which were then negotiating the large Hukuang railway loan to the Chinese government. This loan was finally arranged in 1911 and included a special concession for each of the four countries to supply a quota of rails, materials, and equipment, also the engineering supervision for one quarter of the total mileage. This was one of the first obvious and important victories for American imperialism in a clash with other first-rate powers. Apparently a purely financial matter, it was in fact so closely tied up with political purposes and with the backing of the United States government that two years later, when President Wilson withdrew government support in the negotiations of the consortium for another loan to the Chinese government, the American bankers also withdrew and left the field to the Europeans.

During the World War, Japan seized all the former German possessions in the Far East and by the Twenty-One Demands of May, 1915, sought exclusive domination in China. But American diplomatic pressure prevented the Japanese from getting most of what they wanted. After the war, American bankers with government support countered the Japanese demands for special privileges outside of Manchuria with proposals for a new consortium. An agreement was arranged in 1920 which gave the United States bankers grouped around J. P. Morgan & Co. recognized leadership in a four-nation group (with selected British, French, and Japanese bankers) for all future loans to the government of China, including loans for industrial development. Japan went into the new consortium only after the other powers had informally agreed that Japan had special interests in Manchuria.

This new consortium of 1920 had never, up to the end of 1935, floated a loan for the China government. But the consortiums have had great

importance in the imperialist struggle. They have reflected the increasing power of the United States in world affairs.*

Some years before the first consortium (1909) was arranged, American interests including Standard Oil capitalists and, later, J. P. Morgan & Co., controlled a concession for railway construction northward from Canton to Hankow. The British regarded this as an invasion of their special sphere of influence. As a result the Americans were maneuvered out of the concession (on technical grounds because a part interest had been sold to non-Americans), and in 1905 the concession was bought back by the Chinese government with capital loaned by the British.[19] In 1909, the American group were able to fight their way into a consortium dominated by the British. After the war, in the new consortium, initiative and leadership were in the hands of the Morgan firm and their close American associates.

The importance of the American position in China was suavely stated in 1920 by T. W. Lamont, a Morgan partner, in his privately printed *Preliminary Report on the New Consortium for China.*

> ...The American group...has by force of circumstances, jumped from an inconspicuous position in the old Consortium to one of prime importance in the new.
>
> In this America, as represented through the group, should be equipped to play a very active part. If so equipped she will be able to...lay out, with her experienced partners of Great Britain, France and Japan, a sound and comprehensive plan for the economic and financial development of China. ...Through her representatives at Peking she will be able sympathetically to wield influence upon the present confused elements—to make a real contribution to the improving political conditions there.[20]

British and Japanese investments in China are still considerably larger than American investments but American interests have increased more rapidly than British interests since the war. Investments of United States capitalists in China amounted in 1930 to roughly $200,000,000 and represented less than 10% of the total foreign interests in China (including Manchuria, now "Manchoukuo").[21] Standard Oil property and the Morgan-controlled utilities in Shanghai are the largest separate items in the "direct" investment. From $40 to $50 millions are in government bonds. The $200,000,000 total does not include the $42,000,000 of China property held by American missions and American educational and medical institutions. And American products have won the leading position among all goods imported into China.

The strategic importance of the new consortium has been undermined in recent years by the Japanese war against Manchuria and northern China. From this have resulted the separate state of "Manchoukuo" and the "autonomous" area of North China (including the former capital,

* For the full story of the consortiums up to 1930, see F. V. Field, *American Participation in the China Consortiums.*

Peiping) which are in effect protectorates of Japan. Despite this gobbling up of Chinese territory Japan holds a favored position with the Nanking government.

Defeat of the Red Army of China and support of Chiang Kai-shek's war against the new Soviet districts in the interior has become the primary concern of all the imperialist powers in relation to China.* Foreign gunboats have been used against the Red Army—on the pretext of protecting foreigners. Foreign police in the international settlement at Shanghai and Japanese agents in Tientsin and Peiping have taken an active part in the terror against revolutionists and liberals who oppose the Nanking government of Chiang Kai-shek.

Meantime Great Britain has used its share of Boxer Indemnity funds for the completion (with British materials) of the Canton-Hankow railroad line. And sharp rivalry has developed for the privilege of supplying Chiang Kai-shek with munitions, airplanes, flying instructors, military advisors and loans, for supporting the armies of reaction. From the United States, Chiang Kai-shek has had official aid through the $17,105,385 loan granted by the Reconstruction Finance Corp.** This loan was for the purchase of surplus wheat and cotton in the United States. Actually, however, at least $10,000,000 worth of grain was traded for war materials.[22] (For American aid to the Nanking government in the field of aviation, see p. 206.) American corporations, and others, operating in China have made large advances to provincial governments and to Nanking officials.

The course of the world economic crisis and depression has made difficulties for the Nanking government which has been greatly weakened from within by the Civil War. The Communists have won mass support among the peasants. In spite of a most brutal white terror, workers in the industrial centers are awakening toward organized revolutionary resistance. Great numbers of educated Chinese are opposed to Chiang Kai-shek's terrorist methods and resent his subservience to the Japanese.

The Nanking government has floundered in serious financial difficulties, partly due to the unfavorable balance of international payments, which drains its silver reserves, and party due to the costliness of its war against the Chinese Soviets. When Roosevelt raised the government price of silver in the United States in June, 1934, he hastened China's economic and financial collapse and made it necessary for Chiang Kai-shek to seek foreign aid. Chiang is reported to have had short-term advances from the (British) Hongkong and Shanghai Banking Corp. (in which Morgan

* This is not the first time that the western powers have actively supported reaction in China. When the Chinese empire was shaken by the republican revolution in 1911, the first consortium waited hopefully for the restoration of the imperial family and then threw their aid to Yuan Shih-kai, leader of the most conservative group in the revolutionary forces.

** A $50,000,000 loan was originally authorized but only about one-third of it was actually granted.

interests are represented). The extent of British financial support to Chiang's new monetary policy has not yet been revealed. Apparently the consortium is not functioning.

Japan's advance into the northern provinces has become the most important element in the whole situation. It has further sharpened the inter-imperialist antagonisms. At the same time, it has aroused a new unity among all anti-imperialist forces in China.

## *Canada*

Penetration of Canada by finance capital of the United States has followed a pattern unlike that in any other country. Canada has its own highly developed financial groups and a strong, independent government. Politically it is tied to the British Empire as a self-governing dominion. Economically, it has always had a certain measure of preferential tariff agreements in favor of trade with Great Britain. These preferential margins were greatly widened by the agreements of the British Imperial Economic Conference at Ottawa in 1932 which Wall Street countered with the new Canada-U.S. trade agreement of 1935.

In spite of these close links to Great Britain, Canadian capitalism has had since the World War a closer relation with Wall Street than London. The share held by United States exports in the Canadian market has declined since 1929 but it is still more than double the share held by exports from Great Britain. And in capital investment, which is more important than trade in determining the influence of one country upon another, the United States has ever since the war held an unquestioned leadership over Great Britain. In 1931 the stake of United States capitalists in Canadian industry and Canadian resources was almost double the stake of British capitalists.[28] It is also double the stake of United States capitalists in any other one foreign country.

The four billions of American capital invested in Canada constitute roughly one-fourth of the total of foreign investment by private interests in the United States.

Wall Street's hold is especially strong in metal manufacturing (including automobiles and electrical equipment), paper and pulp and lumber, metal mining, and utilities.* Most of the large manufacturing corporations in the United States have Canadian subsidiaries and these in turn are tied in, through cross-directorships, with the large dominant Canadian banks and the Canadian Pacific Railway. There is also a considerable American investment in Canadian-controlled corporations.

Meantime, Canadian capitalists have been building up their own investments in other countries. Over a billion dollars of Canadian capital is invested in the United States and three-quarters of a billion elsewhere

* British capital has a slight lead in Canadian railway holdings, and a considerable lead in real estate mortgages and land investments and in Canadian government securities.

—chiefly in the West Indies and South America, but also in Europe. Compared to the $6.5 billions of foreign capital invested in Canada, these nearly $2 billions of Canadian foreign investment are relatively small.

## *World War, a New Stage in U. S. Imperialism*

In Canada, in China, in the Caribbean area, and in South America, the interests of United States capitalists gained tremendously during the World War. Not only did actual trade and investment increase, but the relative position of American imperialism in comparison with British imperialism was permanently strengthened. On the continent of Europe, also, the United States gained during the war a position of economic leadership.

At home, American capitalism, as chief purveyor of munitions and war supplies, enjoyed during the war an unequaled industrial boom and high profits. This war activity rapidly increased the capital piled up by the owners of American industry. It poured new riches into the hands of J. P. Morgan & Co. and their associates who served as purchasing and financial agents for Allied nations. It changed the basic international position of American capitalism.

Until the war, the United States had remained a borrowing nation, still dependent in part on foreign capital invested in the United States. American corporations had been expanding abroad but there had been no corresponding decline in the foreign capital invested within the United States, which totaled in 1913 between $5 billion and $7 billion.

The war brought a rapid and decisive change. British, French and German investors began cashing in their American securities and putting the capital thus released into war industries and government bonds in their own countries. By the end of the war roughly half the total foreign capital invested in the United States had been withdrawn. But the funds thus made available to the Allied governments were not sufficient to cover their huge purchases from U. S. Steel, Bethlehem, duPont, Remington Arms, General Motors, and other American corporations that were supplying war materials and clothing and food for the Allies. So bonds of the Allied nations were sold in the United States, chiefly through J. P. Morgan & Co. and their associates, to raise additional funds for their war purchases in this country. By the beginning of 1917 more than $1.5 billion of American private capital had been thus advanced to the Allied nations. Other countries, still neutral in the war, were also turning to Wall Street for loans as they had formerly turned to London.

As the net result of these transactions, before the United States entered the war in April, 1917, it had become a creditor nation. American capitalists had loaned and invested abroad more than they owed to foreign capitalists.

"Democracy" was, of course, merely a popular slogan to conceal the genuine economic reasons for the United States' entering the war. The

Allies were already deeply in debt to the American capitalist class and the interests of Wall Street demanded an Allied victory. For this—especially after the overthrow of the Tsar in March, 1917, and the breaking down of the eastern front—active military and financial help from the United States government had become absolutely necessary. American industry had enlarged its plant for war manufactures and was interested in prolonging the war boom.

> ...The practice of permitting citizens of neutral countries freely to sell their goods to belligerent nations rested upon the theory that these were transactions of a business nature in an open market in which all belligerents were equally free to participate, while each might interfere with the transit to his enemy of munitions or money as contraband of war. But with the command of the seas falling at once to the Allied Powers, it was clear that the only great neutral market, that of the United States, was closed to the belligerents of the other camp. Furthermore, it rapidly became apparent that so inferior was the productive organization of the Allies that they could not maintain their forces without supplies from America. And still further, the prospective quantities of such supplies were so huge that their purchase could not long be financed without obtaining extensive credits in the United States. The United States, therefore, was furnishing supplies—and supplies essential for the continuation of the war—to belligerents of only one side....
>
> ...Thus by the end of the year 1914 the traffic in war materials with the Allies had become deeply entrenched in America's economic organization, and the possibility of keeping out of the war by the diplomacy of neutrality, no matter how skillfully conducted, had reached the vanishing point.[24]

American imperialist interests also demanded a voice in the redistribution of the Far Eastern world after the war. They could not allow Japan to swallow up the German sphere of influence in China, but no voice at the "peace" conference would be granted to a neutral power.

After the war, the United States continued to exercise political power in European and Far Eastern affairs. It remained outside the League of Nations but this fact did not restore the traditional "isolation" of the United States. Politically it was active through "observers" who hovered in the lobbies of conferences held under the auspices of the League. It intrigued actively with European nations for the overthrow of the new Soviet power. It dominated the Washington Conference of 1922 which brought a temporary balance among powers having interests in the Pacific. And in the economic adjustments of post-war Europe which have been of basic political importance American capitalism has played the dominating role.

## *Wall Street and the Stabilization of Post-War Europe*

In post-war western Europe, where all the capitalist powers were burdened with debt, harassed with depreciated currencies, and deeply alarmed over the revolutionary spirit of the masses, the economic strength of the

United States gave it powerful influence over other governments. Wall Street played a many-sided role in the temporary stabilization which was achieved.

(1) *Reparations.* The United States made practically no claim for reparations beyond payment by Germany of the expenses of the Army of Occupation stationed on the Rhine after the close of the war. And throughout the discussion of inter-Allied debts it has never been officially admitted by the United States that payments by England, France, Italy and others to the United States government were in any way related to the reparation payments which the Allies claimed from Germany. The United States took no official part in the drafting of the various plans and refused to sign them when they were adopted by the European powers. *And yet at every stage, the House of Morgan, chief international banker and war-time agent of the Allied governments, had a voice in the "settlement" of the reparation question, one of the most important financial and political problems of post-war European capitalism.*

Thomas W. Lamont, a Morgan partner, was a member of the Reparation Commission at the Paris Conference (1919-20). The 1923 International Committee of Experts, appointed to study the German budget and currency with a view to modifying the immediate payments required from Germany, included Charles G. Dawes, a Chicago banker, as chairman, and Owen D. Young, chief executive of the Morgan electrical trust which has large European interests. More than half of the $200,000,000 international gold loan, borrowed by Germany under the Dawes Plan as the basis for a new currency in 1924, was floated in the United States by Morgan and his associates. Supervisory machinery set-up in Germany under the Dawes Plan, included as agent general of reparations S. Parker Gilbert. He was a smart young American who had been employed in the Treasury Department and who, when his post in Germany was abolished, came home to a partnership in the Morgan firm. It also included an American representative on the General Council of the Reichsbank (Germany), and the man appointed was Gates W. McGarrah, a responsible lieutenant of the Morgan interests in New York.

Another international committee of experts was appointed in 1928, when even the modified reparation schedule was seen to be threatening the returns on private foreign investments in Germany (chiefly American). This time Owen D. Young took the chairmanship, with J. P. Morgan himself as an associate. Their alternates were T. W. Lamont and a Boston corporation lawyer, Thomas Nelson Perkins. The Young Plan, adopted in 1929, abolished the supervisory machinery in Germany and created the Bank for International Settlements at Basle. Another Morgan man, Jackson E. Reynolds, president of the Morgan-controlled First National Bank of New York, appeared as chairman of the bank's organization committee. The bank itself is jointly owned by the central banks of six European powers and by a private American group: J. P. Morgan & Co., First National Bank of New York, and First National Bank of Chicago.

During the world economic crisis, when all reparation payments had

become obviously impossible and default of dollar interest payments on privately owned German bonds was threatened, President Hoover (1931) proposed a moratorium (that is, a postponement) of one year on all intergovernmental debt payments. German payments of reparations have never been resumed. Private holdings of government bonds, both in Germany and other European countries, have had right of way to receive payments as a first claim ahead of intergovernmental debts.

(2) *Private loans to governments.* Germany was not the only European country whose budget was so badly out of balance and whose industrial life was so disorganized by the war that outside help was a necessary preliminary to stabilizing the currency and reviving capitalist industry. At least a dozen European countries received so-called "currency" loans from Wall Street. Including also government bond issues for other purposes, Wall Street provided loans for every European country west of the Soviet Union between 1920 and 1930. For example, J. P. Morgan & Co. underwrote government bonds and then sold them to capitalists (chiefly in the United States) for France ($300,000,000), for Austria ($50,000,000), for Italy ($142,000,000), for Belgium ($260,000,000), and for Germany ($208,250,000). Morgan took the principal countries under his care, and left other countries for the smaller banking houses. So, for example Czechoslovakia was "helped" by Kuhn, Loeb & Co.; Hungary and Bulgaria by Speyer & Co.; Poland by Dillon, Read & Co.; and Finland by National City Co.[25] Great Britain did not offer a long-term bond issue in the United States after the war, but when the pound sterling went off gold in 1931, Morgan headed a banking syndicate which placed a $200,000,000 short-term credit at the disposal of the British Government.[26]

Special conditions were attached to some of these loans, mortgaging certain state revenues and even installing an American administrator to supervise the government budget. Before the war such financial dictation was practiced by European lending nations only in their dealings with colonial and semi-colonial states. Great Britain, France, Belgium, Italy, and Switzerland escaped this supervision by Wall Street, but Germany and Austria and most of the minor powers were subjected to it.

At the end of 1930, European government bond issues outstanding in the hands of American private owners, that is, banks, investment trusts, and individual capitalists, were estimated as totaling $1.4 billion. More than another billion had been advanced either to provincial and municipal governments or to government-guaranteed corporations.

(3) *Other Investments in Post-War Europe.* Besides this two and a half billion dollar mortgage on European public funds, American capitalists have poured almost another two and a half billions into European industry. About $900,000,000 was loaned to private European corporations. In Germany much of the post-war rationalization was carried out with American loans. The old interest of Morgan's electrical trust in German electrical companies was strengthened and extended. Americans have a large interest in the international sleeping-car trust. They hold bonds

of the principal French railways and of Italian utilities. Over $200,000,000 went into Kreuger's great swindle, the Swedish match trust.

Still larger is the amount invested in American manufacturing plants and sales agencies, and in scattering interests including mines. "Practically every commodity that American industry manufactures in any foreign country is produced also in American-owned plants in Great Britain." The U. S. Department of Commerce in making this statement also reported that there were 169 American-owned manufacturing plants in Great Britain in 1930, representing over $268,000,000 of investment. In France, electrical equipment, office machinery, and films are dominated by large interests in the United States. All the leading American motor companies have European assembly plants, and General Motors has acquired control of the great German manufacturer of small cars, Opel. American-owned shops in Europe are competing in the manufacture of railroad equipment.*

*The total stake of American capitalism in European capitalism is about five billion dollars, entirely apart from the intergovernmental debts to the United States which now total about $11 billion, including the accumulations of unpaid interest.*

Small wonder that Wall Street actively supports the fascist governments set up as the bulwark of capitalism in this period of crisis and revolution!

## *Role of Capital Export in American Capitalism*

Capital has been sent abroad on many different errands. But underlying them all is the basic quest for wider markets and higher profits. This economic expansion has been reflected in the political history of the imperialist era and the emergence of the United States as a leading Naval Power. It has involved the acquisition of colonies immensely important in relation to naval strategy.

Reviewing the various types of foreign investment according to the immediate purpose we find the following principal immediate aims:

(1) *To control and exploit foreign sources of raw materials.* A few notable examples: oil reserves and oil production by the Standard Oil companies and two or three other large interests; the banana empire of United Fruit Co. in the Caribbean area; mineral investments in Poland by W. A. Harriman and the Anaconda Copper Mining Co.; iron mines in Cuba, by Bethlehem Steel Corp.; manganese mines in Brazil, by U. S. Steel Corp.; the National Lead Co. interest in Bolivian tin; copper mines in Peru, Chile and Mexico owned by Hearst, and by the great metal mining corporations, Anaconda, Kennecott, and American Smelting & Refining; American paper companies' holdings of Canadian timber reserves.

* For further data, see Frank A. Southard, Jr., *American Industry in Europe*, published in 1931, and U. S. Department of Commerce, Trade Information Bulletins No. 767 and 731.

AMERICAN DIRECT INVESTMENTS BY INDUSTRIAL GROUPS[a]
(*as of* 1929)

| | *Caribbean Area, Mexico etc.* | *Canada* | *South America* | *Europe* | *All Other* | *Total* |
|---|---|---|---|---|---|---|
| | in millions of dollars | | | | | |
| Communication and transportation .... | 521.7 | 541.5 | 365.4 | 145.4 | 35.8 | 1,609.8 |
| Manufacturing ...... | 60.6 | 540.6 | 170.4 | 628.9 | 133.9 | 1,534.4 |
| Mining and smelting. | 251.7 | 400.0 | 480.4 | ([b]) | 53.1 | 1,185.2 |
| Petroleum (prod., ref., and distr.) ....... | 244.0 | 55.0 | 372.5 | 231.0 | 214.4 | 1,116.9 |
| Agriculture ......... | 792.5 | 15.0 | 24.4 | ([b]) | 42.6 | 874.5 |
| Selling ............ | 24.9 | 37.9 | 94.3 | 132.9 | 72.0 | 362.0 |
| Paper and pulp...... | ([b]) | 278.9 | ([b]) | ([b]) | ([b]) | 278.9 |
| Miscellaneous ....... | 75.4 | 91.4 | 40.5 | 214.6 | 94.1 | 516.0 |
| Total .......... | 1,970.8 | 1,960.3 | 1,547.9 | 1,352.8 | 645.9 | 7,477.7 |

[a] These estimates do not include investments by American citizens residing outside the United States. Excluded from this table are loans to foreign governments and corporations.

[b] Not shown separately. Small amounts included with miscellaneous do not materially change the relative importance of the different items.

SOURCE: U. S. Department of Commerce, Trade Information Bulletin No. 731.

(2) *To build up international monopolies.* Partly this group overlaps with the first group, but also it includes manufacturing and operating monopolies apart from raw materials. Here we find, for example, the dominance of big American meat packers in Argentine cattle raising and meat packing; the international electrical trusts, the rival world chemical alliances, and the European expansion of the American motion picture industry.

(3) *To produce goods for the foreign market behind the foreign tariff barriers.* Again, this group overlaps with the second group. Expansion of the American automobile industry, for example, with its assembly plants on every continent and its factories in Germany and within the British Empire, has been speeded by the desire to evade high tariffs and to benefit from British Empire preferences, but it has also greatly strengthened the world monopoly dominance of General Motors Corp. and Ford Motor Co. But alongside this monopoly trend there is another distinctive movement by smaller concerns which do not share in a monopoly position but have set up foreign factories in order to manufacture for a foreign market behind barriers raised against American products.

(4) *To finance exports of goods produced in the United States.* This was, of course, most notably and directly true on a very large scale during the World War, when loans to the Allies (both private and government loans) went directly into the treasuries of American corporations to pay at war prices for their exports of war materials. To a certain unmeasured extent the export of capital continued after the war to promote the export

of goods. American industries operating in undeveloped countries naturally equip their plants with American products. American loans to foreign governments for public works, railroads, or utilities are often conditioned on the purchase of pipe, rails, generators, etc., in the United States.

(5) *To gain the higher profits and higher interest rates which prevail in less developed countries.* These are directly related to lower wage scales and backwardness in industrial technique.

It cannot be too often repeated, however, that the quest for higher profits and, in some cases, for wider markets has been the compelling power behind all the various kinds of foreign investment. Bankers who tried to stabilize European governments with loans received a large immediate profit in the form of commissions and discounts on the tens and hundreds of millions of capital mobilized for the European bond issues. And their "statesmanship" was tied in with fear that the European market for American products would collapse.

With this tremendous increase in foreign investment—from $2 billion to $16 billion of private capital in the course of 15 years—went the basic shift characteristic of the imperialist era. Foreign trade was increasing but income from foreign investment became a more important item to the American capitalist class than the profits from foreign trade. Applying the measure used by J. A. Hobson in *Imperialism* and quoted with marked emphasis by Lenin in *Imperialism, the Highest Stage of Capitalism,* we find that during the period 1923-29 the gross income from American private capital abroad was about three times the total estimated profit from all American foreign trade (exports, imports, and returns from shipping and freight). Or if we take only the net capital income, after deducting interest and dividends paid to foreigners on their capital in the United States, this was still twice as large as the profit from foreign trade. In the words of Lenin, "This is the essence of imperialism and imperialist parasitism." [27]

This imperialist parasitism was further increased during the world economic crisis. In spite of widespread defaults on foreign bonds and the shrinkage of profits from American concerns outside of the United States, the income from private capital invested abroad in 1932 was about $461,000,000, or approximately six times the profit on the greatly reduced volume of foreign trade.

Export of capital on so large a scale was the product of monopoly capitalism and in its turn it helped to increase the power of finance capital and the concentration of wealth. It was during the post-war boom a factor in the increase of "luxury" jobs in non-productive service. It helped to make possible the continuance up to the economic crisis of relatively high wage scales for the upper ranks of the working class. All this gave material basis for jingoistic "American" propaganda. It helped to perpetuate the old lines of cleavage within the American working class and further postponed the development of class-conscious solidarity.

CHAPTER XXI

# RULING POLICIES AND THE CRISIS

The economic crisis which began in 1929 has been the sharpest and most devastating in the history of capitalism. It has involved the entire capitalist world, destroying alike the temporary stabilization achieved in western Europe and the prosperity boom of 1922 to 1929 in the United States. It has added another to the long series of cyclical economic crises which have marked the development of capitalism since the beginning of the nineteenth century. But this latest economic crisis has been more severe than its predecessors, it has yielded more slowly to the stage of depression, and the depression moves slowly and irregularly without promise of genuine recovery.

This crisis occurring when the capitalist rulers in the United States had achieved an unprecedented concentration of economic and political power should have revealed to the blindest liberal optimist the essentially chaotic and unstable nature of capitalism. For at the peak of their post-war prosperity, the financial rulers were following the same old principles of individual lust for immediate profit and unrestrained and increasing exploitation of the working class. They were manipulating international policies for their own advantage with a total disregard of the new conflicts they were preparing. They set up great blocks of new fictitious capital which represented no genuine expansion of production or markets but were merely a device for permanently increasing the profits to be drawn from the working class. They could not do otherwise for they were following the essential inner laws of capitalist society.

In analyzing the crisis we do not attempt to relate to this group or that the course of events that preceded it. We are concerned only in demonstrating its relation to the capitalist structure of society and the present stage of capitalist development. But it should not be forgotten that American rulers did play a decisive role. American imperialism, developing later than others, reached its highest point in connection with the World War and the temporary post-war stabilization of the European nations whose capitalist structure was weakened but not destroyed by the war and the first post-war wave of revolutions. At the same time elements of weakness peculiar to the present period of world capitalism were present in the United States throughout its post-war prosperity.

### *Background*

To understand the present economic crisis and depression, we must have in mind the contradictions and conflicts inherent in the capitalist system since its earliest days. We must also remember the ways in which these conflicts have been intensified since the first World War so that the entire capitalist world has entered a stage of general crisis.

It is a familiar fact that booms and crises have followed one another with an irregular but steady monotony since the early years of the 19th century. These economic cycles have shown minor differences, one from another, but always they have included the piling up of goods for which there was no market, a sharp fall in prices, decline of production, mass unemployment and wage cuts, bank failures and other bankruptcies; then a slow revival through depression to "prosperity." Industrial activity would begin most markedly in heavy industry producing the means of production, as the lucky capitalists who could raise new capital and credit rebuilt their plants to reduce cost of production below the low depression prices. Activity would spread to light industry—consumers' goods—as mass purchasing power increased. Then prices and profits would rise. Industry would speed again towards a new glut and another crisis.

Each crisis, with its bankruptcies, brought a temporary solution of the inner conflict between the productive powers of industry and the limits of the market. But each revival further increased productive capacity and prepared for a new and sharper crisis in the future. For while capitalism was developing its power to produce, it was at the same time widening the gap between the enormous volume of its products and the restricted buying power which capitalism allows to the workers and to masses of farmers.*

More and more "surplus" goods roamed the earth looking for buyers while workers who produced the goods lived in poverty. Capital pushed into wider fields of investment beyond its own national boundaries. Colonies and protected areas were appropriated as each government did its part in providing its own capitalist class with preferential markets and fields for outside investment. Inter-imperialist clashes and wars of colonial

* Marx, in the third volume of *Capital*, analyzes various elements in economic crisis, including "disproportion of production in various branches," and "disproportion of the consumption of the capitalists and the accumulation of their capitals." "But as matters stand, the reproduction of the capitals invested in production depends largely upon the consuming power of the non-producing classes; while the consuming power of the laborers is handicapped partly by the laws of wages, partly by the fact that it can be exerted only so long as the laborer can be employed at a profit for the capitalist class. *The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way, that only the absolute power of consumption of the entire society would be their limit.*" (Kerr edition, p. 568. Emphasis not in original.) Of course, many other references to crisis are scattered through this work and others by Marx.

aggression resulted. When practically the entire world was divided among the Great Powers with their colonies and spheres of influence, the conflicts and inner contradictions sharpened and prepared the way for the first World War for the redivision of territory.

At the same time, throughout the pre-war years, workers in every capitalist country were building up working-class organization and offering resistance to their exploiters. Then in the long misery of the war years in Europe, when a few capitalists were gathering fantastic profits while workers in the trenches were butchered and their families hungered, the smoldering resentment and fiftful spurts of active struggle flared in several European countries into the blaze of revolution. Only in the Soviet Union did the working class maintain its new state power, but the dread of workers' revolution became a permanent element disturbing the capitalist situation. At the same time the loss to capitalism of one-sixth of the earth's surface cut into the territory available for its plundering and definitely divided the world into two diametrically opposed and conflicting economic systems.

## *The General Crisis of Capitalism*

The general crisis of capitalism is rooted in these two great groups of inner conflicts; (1) the sharpened political conflict between the capitalist class and the working class, and (2) the contradiction between productive forces and the market under capitalism which has been greatly intensified in the post-war years.

(1) Class conflict between capitalists and workers reached a new stage of development with the successful building of socialism in the Soviet Union and its emergence as a leading world power. Speaking of the general crisis of capitalism Stalin, who has developed and extended Lenin's teachings on imperialism, said (in 1930):

> It means first of all that the imperialist war and its aftermath have intensified the decay of capitalism and disturbed its equilibrium, that we are now living in the epoch of wars and revolutions, that capitalism no longer represents the *sole* and *all-embracing* system of world economy, that side by side with the capitalist system of economy there exists the Socialist system, which is growing, which is flourishing, which is resisting the capitalist system, and which by the very fact of its existence is demonstrating the rottenness of capitalism and shaking its foundations.[1]

Revolution in China and the increase of anti-imperialist and revolutionary movements in other colonial and semi-colonial countries have also been undermining the political strength of the imperialist powers. Within their home territory, the line-up has been clearer between capitalist rule (including fascism and fascist trends) on the one side and the rising class-conscious forces of the workers and their allies on the other side.

(2) These political developments were closely tied up with increasing economic problems in the capitalist world. While the Soviet Union, as we

have noted, cut seriously into the territory available for capitalist expansion, the colonial and dependent countries had emerged from the war with new capitalist industries which complicated the imperialists' struggle for markets. At home, each group of the imperialists was driving ahead to reduce costs by "rationalization" and intense speeding-up of the workers.*

This process further widened the gap between productive capacity and mass purchasing power.

> ... the war has left to the majority of the capitalist countries a painful heritage in the shape of *chronic under-employment of factories* and *armies of unemployed running into millions*, which, moreover, have been transformed from reserve armies of labor into *permanent* armies of unemployed.[2]

Inter-woven with this industrial situation and further limiting the market of the capitalist world was a chronic agrarian crisis.

All these factors in the general crisis of capitalism have immediate bearing on the unprecedented severity of the latest cyclical crisis and depression. To what extent were they present in the United States before the economic crisis of 1929?

Here the "chronic agrarian crisis" reflected the contraction of markets and decline in prices that followed the end of the war boom and the gradual restoration of agricultural production in other countries.** The first post-war cyclical crisis brought a sharp disparity between the prices received by farmers for their products and the prices they had to pay. This has continued, with occasional exceptions for certain farm products, throughout the post-war period. Whether in relation to pre-war averages or to the high prices of the war boom, average prices received for farm products ran continuously lower than the prices at which farmers could buy equipment, supplies, clothing and food. Their mortgages and other debts could not be supported. Farm tenancy increased. The contrast between "rich farmers" and "poor farmers" was sharpened. Rural banks collapsed in great numbers. Even during "prosperity" the rural market for industrial products failed to expand and absorb its share of the rising total volume of goods.

* E. Varga notes that during the first post-war economic crisis European capitalism was suffering from underproduction, due to the terrific wearing down of the means of production during the war. The post-war loans of American capital led to a rapid rebuilding of industrial plant in Germany and in the devastated areas of France. While this brought revival and a period of stabilization, the "wholesale renewal of fixed capital, coupled with a great increase in the intensity of labor ... led to an exceptional accentuation of the contradiction between productive power, expanding by leaps, and consuming power, extremely restricted as a result of rationalization." (*The Great Crisis and its Political Consequences*, pp. 24-25.)

** Export markets have been especially important for cotton, wheat and meat. Volume of exports has been irregular in cotton, with a post-war peak in 1926, and irregular but definitely declining in wheat since 1921 and in meat products since 1919.

Chronic mass unemployment developed in the United States during the boom years. The increase in industrial production between 1919 and 1929 was accompanied by a decrease in the number of workers employed by factories, railroads, and mines. A marked rise in the productivity of labor, together with an increased speed-up and intensity of labor, enabled a smaller number of workers to produce 40% more goods. Some of the workers previously engaged in production were absorbed in non-productive and so-called "service" occupations, but there remained a mass of permanently jobless men and women. It was conservatively estimated that from 1923 to 1927 the yearly average of unemployment ranged from 1,500,000 to 2,300,000 persons. These figures, according to those who offered them, "minimize the seriousness of unemployment" in those years.[3] A higher estimate, of four million unemployed in the winter of 1927-28 was published by the Labor Bureau, Inc.[4]

In the United States, as elsewhere, much industrial plant and equipment was idle even at the height of the "prosperity" era. Percentages of total industrial capacity unused during the boom have been variously estimated, at from 20% to 30% of the total. Industries, of course, vary greatly among themselves, but authorities agree that the "prosperity" output—unequaled in any previous boom—was produced with a wide margin of unused capacity.* At least four important industries—textiles (cotton and woolen), lumber, shipbuilding and bituminous coal—remained in a state of chronic depression throughout the boom.

## *Post-War "Prosperity" in the United States*

Although the United States was markedly affected by these elements in the general crisis of capitalism, the underlying weaknesses did not prevent the flowering of a post-war boom.

The enormous profits of war production had been relatively widely spread in the United States. The American capitalist class and its government had stepped forward into the position of the strongest creditor nation in the world. The post-war surplus of capital found ready outlets both at home and abroad.

In the United States the upward movement after the cyclical crisis and depression of 1920-22 came with the construction of new buildings of all kinds; the modernizing of industrial plants; and the rapid develop-

* Brookings Institution, in its study of *America's Capacity to Produce,* published in 1934, claims that on the whole the percentage of idle capacity in the United States was no greater in post-war years than in pre-war years. If this estimate is correct, the fact remains that the economic effect of a given ratio of idle plant depends on the broad market trend. When the sweep of world trade is broadly upward and volume of output is generally increasing (except for cyclical variations) industry can carry its margin of idle plant as a preliminary to larger production. But with the leveling down of market trends and the absence of new expansion, the margin of idle plant stands revealed as a heavy financial burden.

ment of several new industries, including automobiles, moving pictures, radios and electrical appliances, and aviation. Most of these industries were able to grow more rapidly and profitably in the United States than elsewhere because, in spite of the critical underlying weaknesses which we have noted, there was still a relatively large inner market. And the genuine market was artificially expanded by record totals of installment sales to the petty bourgeoisie and the upper layer of the working class. In the latter part of the boom, rising stock prices, stimulated by capitalist pools, also whipped up a tremendous froth of wholly fictitious wealth.

But the inner market could not be indefinitely expanded, and the new industries continued to overbuild long after the genuine market was saturated.

At the same time the piling up of larger foreign investments was helping to prepare for another world economic crisis. Every capitalist government had come out of the war with a heavy burden of debt. Only in the United States was the revival of post-war capitalism sufficiently vigorous to provide the means for reducing the war debt of the government without some loss to the owners of government bonds, at least through a refunding process (as in Great Britain) or a devaluation of the currency (as in France).* The reparation payments exacted from Germany, already burdened with an enormous internal war debt, led to the bankruptcy of the German government in 1923 and a period of wild inflation which brought immeasurable suffering to German workers. This impoverished the petty capitalists, the professional groups, persons depending on small salaries, fixed incomes and the like while it increased the relative strength of monopoly capital in all its forms. With the help of loans from American, British and French capitalists, reparation payments were continued on a somewhat reduced scale, a new stable currency was created, and German industry entered a new period of growth and intense rationalization, becoming once more a powerful competitor in the world market.

Reparations and inter-allied debt payments directly sharpened the conflicts of international trade, for large payments by one country to another can in the last analysis be made only through exports of goods and services.

Ever since the war the debt payments due to the United States, plus the interest and dividends on American private loans and investments abroad, have been immensely larger than any payments due from the United States to other countries. At the same time the United States has been exporting more goods than it has been importing. All the current items combined—apart from interest and dividends and war debt payments—have been either roughly balanced or have left a margin due to the United States which made still more difficult the payments due here on invested capital and war loans. Sums for the settlement of war debt payments, plus interest and dividends on private capital—a balance paid

* Later, during the cyclical economic crisis of 1929-33, the dollar was devalued also.

to the United States which in 1928, for example, equaled $741 millions—were available only because American capitalists were year by year lending and investing abroad much larger sums than European capitalists were lending or investing in this country. In 1928, the balance of international investment going out from the United States was estimated at $863 millions.

While these American foreign investments were an important element in the temporary stabilization of European capitalism, they were themselves essentially unstable. Even current payments on American investments abroad (let alone repayment of capital principal) were more and more dependent on increased borrowing from American capitalists. For the United States was raising its tariff barriers and more stiffly protecting its not unlimited market against the imports of European goods which might have provided European capitalists and their governments with a genuine means of paying at least a part of their debts to the United States. Anything which interrupted the continuing outward flow of American capital was bound to reveal the basic economic instability of post-war capitalism. In this connection the stock market boom in the United States played an important role, for the high speculative profits at home definitely lessened the relative attractiveness of foreign investment. Loans to foreign governments and corporations outside of Canada reached their peak in 1927. All foreign investment from the United States had begun a sharp decline before the crash of 1929.

The prosperity boom in the United States had been in other ways a topheavy affair, more unstable than any previous era of "good" times. Evidence of this was the large number of bankruptcies. Both in actual numbers and in relation to the estimated total number of business concerns, more failures occurred each year from 1923 to 1928 than ever before except in pre-war years of crisis or depression. During these same six years, 4,183 banks were suspended, involving aggregate deposits of $1,129,594,000. In seven agricultural states, more than 40% of the banks operating in 1920 had failed before the middle of 1929.

## *The Economic Crisis of* 1929-33

When the New York stock market crashed in October, 1929, it punctured the prosperity balloon on which hundreds of thousands of petty capitalists had been floating toward a dream world of riches. It meant great temporary losses to big capitalists as well. It reacted immediately on the European stock markets.

But the stock market crash was in no sense the cause of the economic crisis which was essentially due to the old basic capitalist contradiction between the power to produce and the consuming power of the masses. Approach of crisis had been heralded by the piling up of unsold commodities. Early in 1929 the index of unsold commodity stocks in the United States was 37% above the average for 1923-25 and even greater

was the accumulation of commodity stocks in other countries. Production in certain basic industries had already begun to decline. Construction in the United States reached its peak in 1928; automobile production began to drop after January, 1929. These industries reacted on others. Freight car loadings reflected a general slackening after April, 1929. All these storm signals preceded the stock market crash.

For about three years the decline in industrial output continued. At its lowest points (midsummer, 1932, and early 1933) production was only about half of what it had been at the peak of the boom and below the lowest point of the 1920-22 crisis. Some 17,000,000 persons (including workers, bankrupt farmers and petty capitalists) were out of work in November, 1932, when President Roosevelt was elected. (See Chapter IX, p. 154.) Commodity prices fell steadily from the autumn of 1929 to March-April, 1933, with an average drop of 38% in wholesale prices.

Economic crisis in the United States was interrelated with the economic crisis which paralyzed industry and finance throughout the capitalist world. This world crisis was intensified by the trends which we noted above: Chronic agrarian crisis, chronic mass unemployment, and chronic surplus of productive capacity. Other elements in the exceptional seriousness of this economic crisis, both in the United States and in other countries, were introduced by the post-war increase in monopoly power. At least three aspects of this are important.

(1) Monopoly had checked the fall of industrial prices after the World War. These had remained, on the whole, above the value level. This fact—together with the prevailing low prices of farm products—had intensified the basic contradiction between production and markets. When prices broke in 1929 the average drop (wholesale commodity index) was greater than that in any normal cyclical decline, but the contradictions between monopoly prices and free prices was further sharpened. Farm implements, for example, fell only 6%, prices paid by farmers "for commodities used in living and production" (as computed by the U. S. Bureau of Agricultural Economics) dropped by 35%, while the average prices received for 30 farm products dropped 66%.* Workers' cost of living (including rent) dropped less than 30% between the peak of the boom and the lowest point of the crisis (29% according to the National Industrial Conference Board and 25% according to the U. S. Bureau of Labor Statistics).

(2) This monopoly price level had enabled the financial world to build up after the first post-war crisis an artificially inflated capital structure in industry and finance, which would in any case have been perilously out of balance. This was especially true in the United States. Standing

* A report on *Industrial Prices and their Relative Inflexibility*, by Gardiner C. Means, was published as Senate Document 13 of 74th Congress I. In this report Mr. Means shows that 14 items maintained their prices without change from 1929 to 1934 and 77 items changed less than 10%. At the same time the total 750 items studied included 231 items which fell more than 50%.

with the heavy debt loads of the capitalist governments in Europe and South America it was an invitation to financial disaster.

(3) When the industrial crisis began, the financial rulers everywhere mobilized the resources of their interlocked banks and corporations and of their governments to prevent large bankruptcies and a credit crisis. Such losses are necessary for temporary solution of the basic economic contradictions in which capitalism is involved, but the monopolists thought only of salvaging their inflated capital. They did succeed in postponing the credit crisis but they could not prevent it. It finally broke with unexampled severity in Germany and Austria in 1931, then it carried the British pound "off gold," involved the Japanese yen and many other currencies, and reached its climax in the nation-wide banking holiday in the United States (March, 1933) and the depreciation of the dollar.

As a direct result of all these several factors, the world economic crisis holds the record for long-drawn-out and severe decline of industrial output and world trade, which involves a stupendous volume of unemployment and of course a general decline in profits. Also, certain new elements set this latest crisis apart from all previous crises. Never before have so many currencies in all parts of the world been devalued or depreciated. Never before has there been such widespread non-payment of foreign debts and almost complete cessation of new foreign investment.

In the United States, as elsewhere, the financial rulers used their power to the utmost to throw the burden of the crisis on the working class, yet they saw their own profits and dividends decline. Many bond issues were defaulted. Failures and bankruptcies mounted. But it is noteworthy that all of the chief financial organizations and commercial banks have survived without reorganization. And even at the depth of the crisis in 1932 (the year with the smallest industrial production) about 18% of all active corporations reported taxable net income.

## *The Government Takes a Hand*

In the United States, as elsewhere, the government was drawn in to help the capitalist class. President Hoover did this openly. In January, 1932, as the crisis had continued to deepen and bank failures were increasing he set up the Reconstruction Finance Corp. without camouflaging its purpose to aid banks and railroads.

When President Roosevelt was inaugurated in March, 1933, the leading banks in Detroit had crashed and state-wide bank "holidays" had spread from Michigan to several other states. One of his first official acts was a proclamation declaring a nation-wide banking holiday and financial moratorium. At the same time, about one-third of the wage-earners were unemployed and state and local relief funds were running low. All groups of farmers were in serious difficulty. Feeling against Wall Street was increasingly strong.

Roosevelt, a man of large inherited property, was a little further re-

moved than Hoover from the intrigues of utility magnates and stock speculators. He was "liberal" enough to realize that regulating the worst excesses of Wall Street methods would be not only a popular move but would strengthen the financial system. Government emergency measures must take *some* account of the effects of the crisis on petty capitalists and wage-earners. The fiasco of the Federal Farm Board (set up under Hoover's guidance before the crash of 1929 to control the marketing of grain) showed that more drastic action was required for the raising of farm prices. In his efforts to satisfy the capitalists without revealing to workers and small farmers that he was helping to throw on them the burden of the crisis Roosevelt has become involved in mutually contradictory immediate aims. But these reflect the inner contradictions of the capitalist system which he is determined to save.

*His primary purpose throughout has been the restoration of profits for the capitalist class.* To accomplish this Roosevelt has carried monopoly capitalism into a further stage of its development.

(1) Never before has government credit been so widely utilized to protect the financial structure. Such measures have included loans to banks and other financial companies (carrying on the policy started by Hoover) and actual participation in banking capital through the R.F.C.'s purchase of preferred stock in hundreds of national banks; taking over by government agencies at reduced interest of farm mortgages and real estate loans which were held by banks, insurance companies, etc., or even by individual capitalists, and which could not be liquidated; and government participation in a mutual bank deposit insurance scheme.

(2) Combination for maintaining prices and limiting production was openly encouraged under NRA codes. Since the ending of the NRA it is tacitly understood that the anti-trust laws (which are still on the statute books) will not be too vigorously enforced.

(3) Just as private monopolies have sometimes attempted to limit output in the hope of balancing their product with the limited market of capitalism so the federal government under Roosevelt embarked on a scheme to reduce agricultural production. (The fact that millions of workers were destitute and barely existing on the meager scale of relief did not interfere with the slaughtering of hogs and the reduction of acreage for grain and cotton!) This further hastened the differentiation of classes within the farm population. (See Chapter XVII.)

The financial crisis and the widespread threat of corporation bankruptcies led to a deliberate depreciation of the dollar. Farmers and many capitalists alike urgently needed an upward turn in prices. They could no longer wait for the "normal" upward trend of a recovery that kept failing to materialize.*

* Pushing up prices by depreciating currency has been a frequent demand of debtor groups. Formerly it has come in the United States chiefly from farmers hopelessly burdened with mortgage debts taken on when prices were high. But in the 1929-33 crisis, the demand for an artificial raising of prices came also from

Offsetting these measures which were frankly aimed to bolster up the capitalist structure and aid the upper groups of farmers, Roosevelt asked for federal funds to supplement state relief funds; minimum wage provisions in the NRA codes; explicit statement of labor's right to organize, with elaborate machinery for preventing strikes; some large appropriations for public works, hundreds of millions of which were diverted to military purposes; and a so-called Social Security Act which offers no immediate benefits for unemployed workers and only meager future provision for those who are re-absorbed into industry.

## *Crisis Yields to Depression*

What have all these measures actually accomplished?

Production, prices and profits have risen, but the revival has not followed a normal course. Heavy industry has not taken the lead in the upward trend. Demand for new buildings and new industrial equipment has remained at low levels. Current technical advance is aimed primarily at *economy of labor without expansion of capacity*. It has not involved important new capital investment. Government spending for army equipment, naval building, and airplanes has been on a larger scale than ever before in time of peace. But these increasing war orders at home and exports of war materials have not as yet restored the steel industry, for example, or copper refiners to a normal scale of production. Taking the country as a whole, increase in production has not brought a corresponding increase in employment.

Depreciation of the dollar, reduction in farm output (which the drought of 1934 carried far beyond the intentions of the Roosevelt program) and the price agreements permitted under NRA industrial codes have combined to raise prices not only above the low point of March-April, 1933, but above the figures that would reflect the slow and irregular increase in demand for goods. Higher prices artificially raised in current dollars are giving industrial corporations an increased total income for a given volume of product. And since labor costs have been cut by technical improvements and by speed-up the minimum volume of production required for profitable operation has been generally reduced.

As a result, profits have apparently risen more than production. But here again the trend is contradictory. Failures and bankruptcies continue

powerful capitalists. As creditors—holding farm mortgages and bonds of various kinds—they preferred to salvage their invested loan capital in depreciated dollars rather than see these capital values collapse entirely. Also most finance capitalists are large stockholders in corporations with such a volume of funded debt outstanding that they share the debtor's viewpoint. As corporation debtors they regarded a moderate depreciation of the dollar and a corresponding rise in the price level as a necessary step to prevent bankruptcy and give corporations the income to meet their debts with a margin of profit for stockholders.

above a normal figure. The increased profits go chiefly to certain groups of large industrial corporations.

Financial recovery has lagged far behind industrial recovery. Government measures have checked bank failures. They have increased the available reserves and greatly broadened the base for private banking credit. But they have not been able to increase materially the industrial use of credit which is the essential business of commercial banks. Corporations strong enough to satisfy banking standards of safety for unsecured loans have relatively large cash reserves and relatively small need of bank credit. Many of the weaker concerns which need credit are in the present situation such poor risks that they cannot borrow.

Prices of certain stocks have risen markedly, a trend which reflects the increased profits and the "hope" of a war boom. This trend has brought a revival of speculative activity and an increase in the volume of bank loans to brokers. But bank profits have not been restored to a "satisfactory" level.

Openings for new capital are also exceedingly limited. The increase in new capital issues which is an index of normal recovery from crisis is playing a minor role in the present depression. Investment bankers have a certain amount of activity in placing "refunding" issues by which corporations are raising capital at current low interest rates in order to pay off old bond issues contracted at higher interest. But the new capital issues, which represent industrial expansion, remained throughout 1934 at the low crisis level and showed relatively slight increase in 1935.*

Capital is finding a source of profit from gambling in foreign exchange. But the irregularities and uncertainties of currency value which invite such speculation are themselves both a symptom of abnormal conditions and a positive hindrance to genuine recovery. The need for stabilized currencies as a basis for rebuilding international trade and finance is generally admitted. At the same time, international trade conflicts complicate the question, for the nation which takes the lead in further currency depreciation will have a temporary advantage in the world market. Also each capitalist government is wrestling with internal problems which make stabilization difficult or impossible.**

* Federal Reserve Bulletin, December, 1935, reported new corporate issues (as distinct from state and municipal bonds, and from refunding issues) as follows:

| | *Domestic* | *Foreign* |
|---|---|---|
| 1929 | $8,002 million | $671 million |
| 1930 | 4,483 " | 905 " |
| 1931 | 1,551 " | 229 " |
| 1932 | 325 " | 29 " |
| 1933 | 160 " | 12 " |
| 1934 | 179 " | — |
| 1935 (eleven months) | 336 " | — |

** The present "stabilization" of the dollar at 60 cents of the former gold dollar is made uncertain by the continuing increase in federal debt, which cannot be

## *"Recovery" for the Working Class*

While the economic future is uncertain, yet large corporations have on the whole enjoyed a marked increase in profits, and capitalist income from dividends, interest, rent, and stock market trading is well above the low points of 1932 and early 1933.

Workers, meanwhile, have had no corresponding gains from the great demagogic talking points in the Roosevelt program.

The minimum *wages* of NRA codes were not only extremely low in themselves but tended to pull down the pay of skilled workers. Even where they were enforced many of the lowest paid categories of workers were exempt. With the abandonment of NRA, a new wave of wage-cutting swept through the country. At the same time, the administration was enforcing wage rates on work relief which set a new low standard.

Depreciation of the dollar and the deliberate pushing up of prices increase the *cost of living* above the lowest point of the crisis. The net result since 1929 has been a decline in real-wage rates and a still sharper decline in mass purchasing power through part-time employment and mass unemployment.

Workers are carrying a much heavier share of the *tax load* than they carried formerly. Federal processing taxes are in effect invisible sales taxes on food. Robert H. Jackson, counsel of the Bureau of Internal Revenue, presented to the Senate Finance Committee a statement showing the shift in the sources of federal revenue. In 1930, according to Jackson, 68% of federal revenues came from income, estate and gift taxes and only 32% from customs and other indirect levies which are passed on to the ultimate consumer "and are borne to a great extent by those whose incomes are barely adequate for maintenance." In 1935, only 39% of federal revenues were from direct taxes and 61% were from the "consumption" taxes.[5] The 1935 tax bill increased slightly the tax rates on large incomes, on estates, and on corporation profits, but it is far less drastic than the direct taxation of wealth in imperialist England. Federal authorities have also shown their hearty approval of the sales taxes enforced in 24 states and in New York City, either wholly or chiefly as a source of unemployment relief funds.[6]

Even with the shorter work weeks of the Roosevelt program, industry has failed materially to reduce the mass *unemployment*. The slight increase in numbers on industrial payrolls has been offset by the increase in young workers, bankrupt petty capitalists, and poor farmers now seeking employment. Numbers unemployed and seeking employment

checked so long as military preparedness is maintained at its unprecedented and rising scale; heavy taxation of profits and wealth is prevented; and prolonged mass unemployment requires aid from federal funds. Under the legislation of 1933, the President has the power formally to devalue the dollar, down to 50 cents of the former gold dollar.

have been grossly understated by the administration, but even these admitted numbers have not been provided for in the public works program.* Federal relief was supposed to be withdrawn in the autumn of 1935 except as payment of starvation wages for made-work on projects that cannot be dignified with the name of public works. The so-called Social Security Act makes no provision whatever for those who are now unemployed and only the most meager future provision for those who may be drawn back into industry.

Under the guise of public works to relieve unemployment, Roosevelt put over measures of direct and indirect military preparedness. Up to July, 1935, about $430,000,000 of public works money had been transferred to army and navy uses.[7] In addition, young men drawn from families on public relief were lured to enlist in the Civilian Conservation Corps, managed by army officers with army discipline and army pay. This is regarded by army men as a valuable auxiliary body for war preparedness.**

*Section 7a* of the National Industrial Recovery Act led to an increase in A. F. of L. and independent union membership, but it also gave a new impetus to the setting up of company unions and employee representation plans in the great open-shop industries. NRA injected innumerable mediation boards into the various important strike situations. Their influence was thrown to the employers' side and against the workers most conspicuously in the west coast waterfront strike which culminated in a brief general strike in San Francisco; in the struggle of miners at U. S. Steel and other captive mines; in the textile strike; and in the organizing campaigns which promised militant strikes in steel mills and auto factories. The National Labor Relations Act, hailed by William Green as the "Magna Charta of Labor," makes permanent the basic features of Section 7a and paves the way for compulsory arbitration.

Those factors which tended to increase the severity of the world economic crisis are still at work to prevent a genuine economic recovery. They account for what Stalin has called a "depression of a special kind."

Even in the United States, recovery is sought on the basis of restricted production adapted to the breakdown of the world market. Mass unemployment is recognized as a permanent factor, President Roosevelt himself admitting that even a revival of the 1929 level of production would require only 80% of the workers then employed. The inner market is further limited by the continuing decline in consuming power of the working class. This is accentuated by the official tactics of pushing down

* Finally, in December, 1935, the Federal Emergency Relief Administration admitted an estimate that 15,000,000 had been unemployed in March, 1933; 12,000,000 in March, 1935; and 10,900,000 in September, 1935. (*New York Times*, December 2 and 5, 1935.) (Compare Chapter IX, page 154.)

** For a detailed record see *Shovels and Guns*, by James Lasswell, in the International Pamphlets series.

the scale of relief and the scale of pay on public works which obviously tends to depress the wage scales in industry.

All these elements of increasing economic contradiction have far-reaching political consequences. Already new war clouds are gathering. Already the class conflicts are intensified and fascist trends are apparent in the United States.

CHAPTER XXII

# WILL THE RULERS MAINTAIN THEIR POWER?

Capitalism in spite of its cruelties has had an important historic function to perform. During its decades of vigorous expansion, it led the way in developing natural resources and the technique of production. But while it prepared the physical means for conquering mass hunger and raising the entire human race to a level of healthy happy living with full cultural development, capitalism has proved itself essentially incapable of thus using the technique which it created. Instead it has brought concentration of wealth and power in the hands of a small group of financial rulers who have manipulated banking, industry and government for the sole purpose of protecting and increasing the profits they draw from the labor of others.

These financial rulers have created great banking groups which monopolize the channels of credit and capital investment. They have covered the country with networks of "public services"—railroads, communication systems, light and power systems, pipe lines—in which monopoly profits under various forms have been most openly protected by the government. Basic industries are dominated by competing monopolies which maneuver for markets and serve as pawns in the perpetual game of the rival financiers.

All these corporate units have been developed in a maze of conflicting and at the same time interlocking interests. The House of Morgan and its allies are directly or indirectly linked with banks, insurance companies, railroads, utilities and miscellaneous industrial corporations representing at least one-fourth of the corporate wealth in the United States. This fact reflects a tremendous concentration of economic power. But a study of industries in which Morgan influence is strong shows that this power does not prevent inner competition and chaotic development of productive capacity. This vast financial power is used solely for the building up of privilege and monopoly profit.

At the same time, the financial groups are forever battling for power among themselves. Sometimes this battle is carried on under cover of joint interest in large corporations. Sometimes it comes to the surface in a visible shift of control or in conflicting political pressures.

Throughout the economic structure this drive for monopoly profits

has involved increasing exploitation of workers and of farmers, and increasing difficulties for the petty capitalists and all but the top group of salaried employees. While the gap has been widening between the extremes of wealth and poverty, the contradiction has also been sharpened between the productive powers of industry and the purchasing power of the great mass of the population. From these basic economic trends, essentially inherent in the capitalist system, resulted the drive for colonies, for wider foreign markets, for higher tariff barriers. They led to the first World War for the redivision of territory. They are basic to the general crisis of capitalism and the profound economic crisis which began in 1929.

The economic structure of capitalism is decaying. Its historic function is completed. But the financial oligarchy is still enthroned. Its power has been somewhat shaken by the crisis. Certain lesser figures have been overthrown, but the central pattern of finance capital is unchanged. The same major groups are still dominant. They have so manipulated industrial and political policies as to save themselves at the expense of the working class and other great sections of the population. Having always used the power of the state to support their capitalist class interests they have now turned to the state for aid in aggressively attacking the workers' standard of living. Class conflict sharpens and fascist trends appear in the United States which threaten the workers' right to strike and undermine the basic principles of the "Bill of Rights," the charter of political democracy in the United States.

Roosevelt and certain Wall Street forces grouped around the Morgan-duPont alliance have come to an open break. These forces upheld Roosevelt at the depth of the crisis. They lapped up the federal aid granted to banks and railroads. They supported the inflationary measures which started the upward trend of prices and profits. They accepted the National Industrial Recovery Act temporarily, as loosening the restrictions on monopoly agreements. But after these first steps toward "recovery" conflicts among the Wall Street forces and conflicts between certain great corporations and other sections of industrial life came to the surface. All these forces are agreed that capitalism must be saved and working-class resistance must be undermined. But their opposing political spokesmen are in sharp disagreement as to the tactics by which this can best be accomplished.

Roosevelt uses the demagogy of opposition to Wall Street powers, but he aided them in the emergency of 1933 and he promised them in January, 1936, no further increase in taxes on profits and capitalist incomes. Roosevelt talks of workers' right to organize and union membership increased under the NRA. But his administration backed a National Labor Relations Act which seeks to hamstring all militant struggle. The NRA notoriously backed down before the great open-shop corporations and accepted their company unions as representing the workers. The Social Security Act admits the federal government's responsibility for contributing to meager future benefits for future unemployed workers in certain

limited occupations. But the Roosevelt labor policy as a whole has tended toward positive lowering of the workers' standard of living.

Opposing forces clustered around the American Liberty League and other reactionary organizations are supported by men whose anti-union policies are notorious, with labor spies and gun-thugs. Their demagogy is directed especially to the great middle class of native white Americans. While they appeal to the great traditions of liberty they are aggressively attacking the basic liberties of the masses. Hearst and Coughlin mouthing their concern for "labor" and "the people" give vicious opposition to every move and every program that strengthens the forces opposed to Wall Street. Here is a clear threat of fascism, "the open, terrorist dictatorship of the most reactionary, the most chauvinist and the most imperialist elements of finance capital."[1]

The threat of fascism—and the urgency of struggle against it—are closely tied up with the question of war among imperialist powers and war against the Soviet Union. For these twin threats against the masses are born of the economic difficulties and conflicts in which the capitalist rulers in the United States and elsewhere have become involved.

American imperialists seem to have no immediate plans for aggressive war, but they are fully aware of the two basic inter-imperialist conflicts directly involving the United States: rivalry with Japan for domination in the Far East, and rivalry with Great Britain for trade supremacy especially in Canada and South America and for world financial leadership. The most immediate danger of war lies elsewhere, but as soon as any two major imperialist powers are at war with one another the chain of financial interest will draw all other imperialist powers and many smaller nations into the conflict just as the European War of 1914 drew in China, Japan, South American countries and the United States. By the cross-currents of trade, investments, loans, credits, blockades and colonial rivalries, each country will be swept into its place on one side or the other. The only hope of avoiding such a catastrophe for the masses of mankind lies in vigorous united action by the workers and their allies.

Already war is a chronic disease of capitalism. During the years of "peace" since 1918, imperialist armies have been busily subduing restless colonies and bringing "order" in small nations. To this general situation the United States has contributed its prolonged campaigns in Nicaragua and the occupation of Haiti. Now the great powers which have carried on their small colonial wars as part of the routine of empire, face the imminent danger of first-class war among themselves. Italy's attack on Ethiopia and Japan's advance in China are part of the imperialist struggle for a new redivision of the world.

At the same time two powers are most aggressively hostile to the Soviet Union. Imperialist Japan and Hitler's Germany openly covet Soviet territory. But the Soviet Union's entire strength is thrown to the preservation of world peace. Imperialist nations divided by their conflicting interests in finance, trade and territory would like to sink their differences and join forces for the destruction of the Soviet Union, but their im-

perialist rivalries cut deeply across their common hatred of the great workers' state. So, for example, France and several smaller nations are most basically opposed to any expansion by Germany. The threat of Germany's eastward advance into Soviet territory has made it possible for the Soviet government to draw France and others into mutual assistance pacts which drive a strong wedge into the anti-Soviet front of European powers. By skillful utilization of inter-imperialist antagonisms, backed by a genuine determination to throw its tremendous power against war, the Soviet Union has already been effective in postponing a major conflict.

But this peace policy of the Soviet Union must be supplemented by aggressive mass action involving all anti-war forces within every capitalist country. There is no other sure guarantee against a major war between imperialist powers. Joint attack by Germany and Japan against the Soviet Union is probably the greatest immediate danger. If such a war breaks, the major challenge to the masses will be active defense of the workers' state.

Struggle against war, resistance to fascist trends, defense of democratic rights, are all inter-related with one another and with the desire of the American people to curb the power of the financial rulers. Even a second World War would not dislodge these rulers from their Wall Street thrones without a strong mass movement against capitalism. Such a movement can be built—and must be built—in the process of the fight to defeat fascist forces and prevent imperialist war. To make effective its overwhelming potential strength, it must include not only the working class as its central driving power but allies of the working class drawn from every other group which has suffered under the rule of finance capital.

Class-conscious workers and those from other classes who understand the historic function of the working class are the essential innermost core of the movement. Wage-workers have economic interests most directly and clearly opposed to the quest for private profits, since capital has been accumulated and profits have been drawn from the exploitation of the working class. Wage-workers have been schooled by capitalism in the rudiments of collective action. They have experienced the strength of solidarity. They have faced police clubs, tear gas and bullets on the picket line. Their families have endured short rations for the sake of strike victory. They have a long tradition of mass action.

In the United States certain sections of the working class are still under the influence of capitalist ideology, nurtured through a past of relatively high wages, conservative union leadership and systematic capitalist propaganda. But the capitalists no longer have dependable mass reserves in any broad group of workers. Experiences of the crisis and depression have already brought a marked awakening among thousands of individuals in the more "backward" groups of the working class.

Farmers are another great oppressed group in the United States. Their situation has slowly but relentlessly deteriorated with the development of capitalism. Land ownership has slipped from the farmer's hands leaving

a small minority who operate land which they own clear of mortgage. All forms of tenancy have increased. Definite strata have developed within the farm population. Sharecroppers and all others on small holdings have been pushed down to a semi-starvation level, while the middle farmers, the old backbone of American agriculture, have diminishing incomes and a declining standard of living. This worsening of the farm situation has proceeded with catastrophic pace since the World War, but its roots go back to the earlier periods of capitalist development. Farmers have traditonally furnshed the mass support for political movements against Wall Street. They have begun to use direct militant action against the great purchasing monopolies and those who hold farm mortgages. They are a large and essential part of any People's Front against fascism.

Negroes bring to the struggle against finance capital the bitter memory of most cruel oppression. As workers they have had the lowest wages, the worst housing and constant discrimination against advancement. As a people they have endured the disabilities and insults common to subject peoples under imperialist rule. As a national minority, they form a tremendous reserve of potential revolutionary strength. It is important not only that white workers and Negro workers stand shoulder to shoulder in the immediate class struggles and in the fight against all economic, social and political discriminations under which the Negro people live and work, but that all the strength of Negro solidarity be enlisted at every stage of the fight against fascism and war and for the overthrowing of American capitalism.

City middle class population has felt the disastrous impact of finance capital. This group is made up of two distinct elements: professional workers and small salaried employees, on the one hand, and petty capitalists trailing down to the self-employing little shopkeeper, on the other hand. Both these groups have been especially hard hit by the crisis and the measures taken by finance capital to save itself. Their problems are related to the capitalist system less obviously but only a little less directly than the problems of the wage-workers. Although untrained in collective action, these groups are numerically strong and politically important. Traditionally less hostile to Wall Street than the farmers have been, they are regarded by the financial rulers as primary material for fascist propaganda. And yet, in France great sections of the middle class have joined the People's Front which has been built around the United Front of Communists and Socialists, to defend democratic rights and living standards and to fight against the threat of fascism. Insofar as they realize the serious menace to liberty and democracy in the "liberty" sought by the Liberty League and other reactionaries, members of the middle class in this country also will rally as allies of the working class.

Last, but by no means least, are the great masses of workers and peasants in colonial and semi-colonial countries who suffer extreme exploitation by the United States imperialists. These masses are already stirring. Together with the native capitalists who resent Yankee domination the

colonial workers will play an important rôle in shaking the power of the financial rulers in the United States.

At every stage in the fight for the preservation and extension of democratic rights and against fascist trends and war, workers and their allies will develop their movement most effectively when they start from political and economic demands genuinely related to the immediate needs and desires of the masses. Under true leadership these demands will be carried step by step to a more developed political level. They will involve sharper attacks on the property rights and privileges of finance capital. In the heat of the struggle, the workers and their allies will forge a deeper solidarity. They will come to a clearer understanding of the basic ways in which finance capital oppresses them.

Opposition to Wall Street power has repeatedly flared into political action outside the organized workers' movement. Leadership has been confused and inadequate, but hatred of monopoly has been deeply rooted in the farmers and the city middle classes. When the imperialist era was beginning with its new "trusts" at home and its lust for foreign expansion, Bryan voiced the poverty of the farmers in the crisis of the 1890's and attacked the gold standard, picturing it as the chief weapon of Wall Street oppression. Theodore Roosevelt, sensing the popular response to the "muck-rakers", started proceedings against leading trusts. Then, in 1912, he rallied a tremendous following from the city middle classes under his banner of "social justice" and attacks on "predatory wealth." Twelve years later the late Senator LaFollette pulled into a new progressive movement his large farmer constituency and important sections of the labor movement. In 1936, Borah, another astute politician, is hoping to revive the Republican Party by summoning it to attack monopoly and Wall Street.

These movements and others have expressed the wide popular resentment against the growth of monopoly capitalism and its increasing control over the life of the people. They have led nowhere, as yet, because the mass opposition to Wall Street has been played upon by leaders who were not prepared to carry the attack against monopoly to its necessary and logical conclusion. They wished to limit monopoly and restore an earlier outgrown type of capitalism. They refused to see the power of Wall Street as the inherent, inevitable product of the capitalist system.

But of course the final struggle for the overthrowing of the financial rulers and the capitalist system which has created them cannot be carried through until capitalist power is also weakened from within. It is equally true that their power will not collapse from economic decay apart from strong political action against them. "A revolution is impossible without a revolutionary situation."[2] This involves three factors:

(1) It becomes impossible for the ruling classes to maintain their power unchanged.

(2) The wants and sufferings of the oppressed classes become exceptionally acute.

(3) The masses are no longer willing to be robbed without protest.

This does not imply a passive waiting for revolutionary crisis to develop. For such a crisis can lead to revolution only if the revolutionary classes—in this period, the workers and their allies—are able to carry out mass actions strong enough to break or undermine the old government. For "never, not even in a period of crises, does a government 'fall' of itself without being 'helped to fall.'"[8]

Obviously American capitalism is not yet in a stage of revolutionary crisis. The rulers are as yet secure in their power. But present trends foreshadow a revolutionary crisis at some future date. When this moment arrives, the outcome will be decisive for a long future of world history. It will depend on the tried solidarity of the working class and its allies among the other strata of the oppressed population, and on the clear thinking and unity of action among those who desire the overthrow of capitalism.

# APPENDICES

# APPENDICES

## APPENDIX A

(See Chapter I, page 20.)

SIZE OF MANUFACTURING ESTABLISHMENTS

| | *Averages per establishment—all manufacturing* | | | |
|---|---|---|---|---|
| | *Wage-earners* | *Horsepower* | *Value of products* | *Value added by manufacture* |
| 1904 ........... | 37.0 | 93.0 | $100,799 | $ 42,584 |
| 1914 ........... | 38.6 | 126.2 | 134,354 | 54,421 |
| 1919 ........... | 42.0 | 136.8 | 289,397 | 115,723 |
| 1923 ........... | 44.7 | 168.6 | 308,473 | 131,682 |
| 1929 ........... | 41.9 | 203.5 | 333,879 | 151,144 |

Prices rose sharply between 1914 and 1919 and dropped thereafter, but remained above the pre-war level until after 1929. Applying the wholesale price index of the U. S. Bureau of Labor Statistics to the dollar values, we arrive at a corrected value which more nearly represents the actual increase per establishment. Percentages of increased product, etc., on page 20 are based on these corrected dollar figures.

| | *Wholesale price index* 1926–100 | *Averages per establishment—all manufacturing corrected by wholesale price index* | |
|---|---|---|---|
| | | *Value of products* | *Value added by manufacture* |
| 1904 ........ | 59.7 | $168,843 | $ 71,329 |
| 1914 ........ | 68.1 | 197,289 | 79,914 |
| 1919 ........ | 138.6 | 208,800 | 83,494 |
| 1923 ........ | 100.6 | 306,633 | 130,897 |
| 1929 ........ | 96.5 | 345,990 | 156,626 |

## APPENDIX B

(See Chapter I, page 24.)

LARGEST 200 NON-BANKING CORPORATIONS

*(As of January 1, 1932)*

In this list the assets of each company in which another company held more than 50% of the stock are included in the assets shown for the

parent company. In the Alleghany Corp. the majority ownership was held not by the Alleghany Corp. alone but by a closely interlocked group of holding companies and railroads.

Companies in which another company held a controlling minority stock interest are shown separately but immediately below the parent company. In a few railroads, the entire stock is equally divided between two other roads. These roads are listed separately but this relationship is indicated.

Wherever assets have been estimated for a group of companies we have tried to allow for the overlapping of interest. The assets figures are for January 1, 1932, or the nearest date for which figures were available. The notes on bankruptcies and receiverships refer to 1935.

The list has been compiled on the same general basis as the earlier list in *The Modern Corporation and Private Property* by A. A. Berle and G. C. Means. The two lists are however only roughly comparable as the procedure in relation to assets of subsidiary companies may not have been identical.

### Railroads

| | *Gross assets less depreciation* |
|---|---|
| *Railroads and related transportation companies* (42) | $25,266,955,000 |
| Alleghany Corp.* (incl. Chesapeake & Ohio, Erie, New York, Chicago & St. Louis, Pere Marquette, Wheeling & Lake Erie) | 1,813,645,000 est. |
| Missouri Pacific* (incl. Texas & Pacific; plus $87,254,000 held by Alleghany, etc.) | 864,899,000 est. |
| Chicago & Eastern Illinois* (plus $19,616,800 held by Alleghany, etc.) | 63,790,000 |
| Atchison, Topeka & Santa Fe Railway Co. | 1,120,325,000 |
| Atlantic Coast Line Railway Co. (incl. Louisville & Nashville) | 811,564,000 est. |
| Baltimore & Ohio R.R. Co. (incl. Alton R.R. and Buffalo, Rochester & Pittsburgh, etc.) | 1,222,700,000 est. |
| Reading Co. (incl. Central R.R. of N. J.; plus $58,518,000 owned by B. & O. and $35,000,000 owned by New York Central) | 492,336,000 est. |
| Western Maryland Railway Co. (plus $33,259,000 held by B. & O.) | 136,430,000 |
| Chicago Great Western R.R.* | 150,452,000 |
| Kansas City Southern Railway Co.* (plus $10,450,000 owned by Chicago, Great Western) | 132,038,000 |
| Chicago, Milwaukee, St. Paul & Pacific R.R.* | 770,361,000 |
| Chicago & North Western Ry. Co.* (including Chicago, St. Paul, Minneapolis & Omaha) | 630,690,000 est. |
| Chicago Union Station Co. | 98,525,000 |
| Chicago & Western Indiana R.R. Co. (plus $4,775,394 stock and advances four other roads on this list) | 84,975,000 |
| Delaware & Hudson Co. | 193,360,000 est. |
| Delaware, Lackawanna & Western R.R. Co. | 174,321,000 |

| | |
|---|---|
| Denver & Rio Grande Western R.R. Co.* (plus $62,457,000 of stock owned jointly by Western Pacific and Missouri Pacific) | 160,465,000 |
| Florida East Coast Railway Co.* | 121,110,000 |
| General American Tank Car Corp. (now General American Transportation Corp.) | 100,501,000 |
| Great Northern Railway Co | 824,275,000 |
| Northern Pacific Railway Co | 790,775,000 |
| Chicago, Burlington & Quincy Railway Co. (plus $166,055,000 stock owned by two Northerns, but including Colorado & Southern) | 544,533,000 |
| Spokane, Cortland & Seattle Ry. Co. (plus $40,000,000 stock owned by two Northerns) | 104,820,000 |
| Missouri-Kansas-Texas R.R. Co | 266,069,000 |
| New York Central R.R. Co | 2,200,900,000 est. |
| Pennsylvania Railroad | 2,781,800,000 est. |
| Boston & Maine R.R. Co. (plus $27,386,300 held by New York, New Haven & Hartford subsidiary. Pennroad holdings not deducted) | 237,870,000 |
| Lehigh Valley R.R. (plus $31,198,400 held by Penn. Co. and Wabash Ry. Co. Pennroad holdings not deducted) | 185,957,000 |
| New York, New Haven & Hartford R.R. Co.* (plus $31,992,500 held by Penn. R.R. Pennroad holdings not deducted) | 517,236,000 |
| Norfolk and Western Ry. Co. (plus $70,965,000 held by Penn. R.R. and subsidiaries) | 424,318,000 |
| Wabash Railway Co.* (plus $67,580,000 held by Pennsylvania Co.) | 271,680,000 |
| Pullman, Inc. | 334,230,000 |
| St. Louis-San Francisco Railway Co.* | 441,728,000 |
| Chicago, Rock Island and Pacific Railway Co.* (plus $10,506,090 of stock held by St. Louis-Francisco Ry. Co.) | 497,673,000 |
| Seaboard Air Line Railway Co.* | 283,200,000 |
| Southern Pacific Co. | 2,212,265,000 |
| St. Louis Southwestern Ry.* (plus $12,980,000 held by Southern Pacific) | 130,908,000 |
| Southern Railway Co. | 775,294,000 est. |
| Union Pacific R.R. Co. | 1,111,208,000 |
| Illinois Central R.R. Co. (plus $50,380,000 held by Union Pacific) | 862,044,000 |
| Virginian Railway Co. | 156,548,000 |
| Western Pacific R.R. Corp.* | 169,137,000 est. |

### Public Utilities

| | |
|---|---|
| *Communications Companies* (5) | $ 5,389,519,000 |
| American Telephone & Telegraph Co. | 4,235,749,000 |
| Associated Telephone & Telegraph Co. | 84,428,000 |
| Associated Telephone Utilities Co.* | 117,782,000 |

| | |
|---|---|
| *Communications Companies* (continued) | |
| International Telephone & Telegraph Corp. | 598,760,000 |
| Western Union Telegraph Co. | 352,800,000 est. |
| | |
| *Electricity and Gas Companies* (39) | $21,011,811,000 |
| American Commonwealths Power Corp.[a] | 190,335,000 |
| American Water Works & Electric Co. | 388,055,000 |
| Associated Gas & Electric Co. | 894,778,000 |
| New England Gas & Electric Assn. | 100,193,000 |
| Central Public Service Corp.[a] | 343,788,000 |
| Cities Service Co. | 1,194,450,000 |
| Consolidated Gas Co. of New York | 1,312,255,000 |
| Consolidated Gas Electric Light & Power Co. of Baltimore | 148,328,000 |
| Duke Power Co. | 182,808,000 |
| Edison Electric Illuminating Co. of Boston | 165,288,000 |
| Electric Bond & Share Co. (including American & Foreign Power) | 1,231,641,000 |
| American Gas & Electric Co. | 463,256,000 |
| American Power & Light Co. | 751,157,000 |
| Electric Power & Light Corp. | 744,220,000 |
| National Power & Light Co. | 533,513,000 |
| (Insull Group) | |
| Middle West Utilities Co.[a] | 1,120,100,000 est. |
| Commonwealth Edison Co. (including Chicago Rapid Transit) | 568,876,000 |
| Midland United Co.[a] (plus $41,846,500 held by other Insull Companies) | 326,217,000 |
| People's Gas Light & Coke Co. | 213,161,000 |
| Public Service Co. of Northern Illinois | 229,521,000 |
| (Koppers Go. Group) | |
| Eastern Gas & Fuel Associates | 189,457,000 |
| Brooklyn Union Gas Co. | 120,176,000 |
| Lone Star Gas Corp. | 137,497,000 |
| North American Co. | 780,496,000 |
| Detroit Edison Co. | 287,919,000 |
| North American Light & Power Co. | 341,090,000 |
| Pacific Gas & Electric Co. | 657,307,000 |
| Pacific Lighting Corp. | 212,673,000 |
| Southern California Edison Co. | 360,670,000 |
| Stone & Webster, Inc. | 376,850,000 |
| Tri-Utilities Corp.[a] | 372,945,000 |
| (United Corporation group) | |
| Columbia Gas & Electric Corp. | 606,860,000 |
| Commonwealth & Southern Corp. | 1,112,766,000 |
| Niagara Hudson Power Corp. | 768,953,000 |
| Public Service Corp. of N. J. | 657,127,000 |
| United Gas Improvement Co. | 800,620,000 |
| United Light & Power Co. | 530,058,000 |
| United States Electric Power Corp. | 1,169,720,000 |
| Utilities Power & Light Corp. | 426,687,000 |

| | |
|---|---|
| *Traction Companies* (8) .......................... | $ 1,418,180,000 |
| Boston Elevated Railway Co. .................. | 105,374,000 |
| Brooklyn & Manhattan Transit Corp. ........... | 332,712,000 |
| Chicago Railways Co.* ........................ | 108,418,000 |
| Hudson & Manhattan R.R. Co. .................. | 130,306,000 |
| Interborough Rapid Transit Co.* .............. | 476,509,000 |
| Philadelphia Rapid Transit* .................. | 79,962,000 |
| Third Avenue Ry. Co. ......................... | 89,197,000 |
| United Railways & Electric Co. of Baltimore* ...... | 95,702,000 |

MANUFACTURING AND MINING

| | |
|---|---|
| *Automobile Companies* (4) ........................ | $ 2,333,144,000 |
| Chrysler Corp. ............................... | 178,609,000 |
| Ford Motor Co. ............................... | 722,329,000 |
| General Motors Corp. ......................... | 1,313,920,000 est. |
| Studebaker Corp.* ............................ | 118,286,000 |

| | |
|---|---|
| *Chemical Companies* (8; for petroleum see below) ...... | $ 1,887,758,000 |
| Allied Chemical & Dye Corp. .................. | 285,302,000 |
| Corn Products Refining Co. ................... | 121,304,000 |
| duPont (E. I.) de Nemours & Co. .............. | 566,807,000 |
| International Match Corp.* ................... | 197,014,000 |
| Koppers Company .............................. | 250,000,000 est. |
| McKesson & Robbins, Inc. ..................... | 79,967,000 |
| Procter & Gamble Co. ......................... | 140,741,000 |
| Union Carbide & Carbon Corp. ................. | 246,623,000 |

| | |
|---|---|
| *Coal Companies* (5) .............................. | $ 639,082,000 |
| Consolidation Coal Co.* ...................... | 89,735,000 |
| Glen Alden Coal Co. .......................... | 165,568,000 |
| Lehigh Coal & Navigation Co. ................. | 94,288,000 |
| Philadelphia & Reading Coal & Iron Corp. ....... | 129,384,000 |
| Pittsburgh Coal Co. .......................... | 160,107,000 |

| | |
|---|---|
| *Food and Tobacco Companies* (14) ................. | $ 2,635,619,000 |
| American Sugar Refining Co. .................. | 139,007,000 |
| American Tobacco Co. ......................... | 294,389,000 |
| Armour & Co. ................................. | 373,338,000 |
| Borden Co. ................................... | 166,934,000 |
| Cuba Co. ..................................... | 138,278,000 |
| Cuban Dominican Sugar Corp.* ................. | 78,496,000 |
| Liggett & Myers Tobacco Co. .................. | 168,824,000 |
| Lorillard (P.) Co. ........................... | 97,500,000 |
| National Biscuit Co. ......................... | 139,464,000 |
| National Dairy Products Corp. ................ | 220,550,000 |
| Reynolds (R. J.) Tobacco Co. ................. | 176,856,000 |
| Swift & Co. .................................. | 317,574,000 |
| United Fruit Co. ............................. | 237,755,000 |
| Wilson & Co. ................................. | 86,654,000 |

| | |
|---|---|
| *Glass Company* (1)....................$ | 96,538,000 |
| Pittsburgh Plate Glass Co. .................... | 96,538,000 |
| | |
| *Leather Company* (1)....................$ | 96,195,000 |
| International Shoe Co. .................... | 96,195,000 |
| | |
| *Lumber Company* (1)....................$ | 93,870,000 |
| Long-Bell Lumber Co.*.................... | 93,870,000 |
| | |
| *Metal Products Companies* (13; for automobiles see above) ....................$ | 2,302,243,000 |
| American Can Co. .................... | 195,408,000 |
| American Car & Foundry Co. .................... | 106,937,000 |
| American Locomotive Co. .................... | 98,336,000 |
| American Radiator & Standard Sanitary Corp. .... | 175,824,000 |
| Baldwin Locomotive Works*.................... | 89,274,000 |
| Continental Can Co. .................... | 82,761,000 |
| Crane Co. .................... | 106,205,000 |
| Deere & Co. .................... | 100,126,000 |
| General Electric Co. .................... | 444,925,000 |
| International Harvester Co., Inc. .................... | 362,320,000 |
| Singer Manufacturing Co. .................... | 225,000,000 est. |
| United Shoe Machinery Corp. .................... | 92,308,000 |
| Westinghouse Electric & Mfg. Co. .................... | 222,819,000 |
| | |
| *Metal Companies* (19)....................$ | 6,367,059,000 |
| Aluminum Co. of America .................... | 305,000,000 est. |
| American Metal Co., Ltd.................... | 90,934,000 |
| American Rolling Mill Co. .................... | 113,418,000 |
| American Smelting & Refining Co. .................... | 215,850,000 |
| Anaconda Copper Mining Co. .................... | 618,986,000 |
| Bethlehem Steel Corp. .................... | 706,820,000 |
| Cliffs Corp. .................... | 116,570,000 est. |
| Crucible Steel Co. of America .................... | 114,952,000 |
| Inland Steel Co. .................... | 115,586,000 |
| Jones & Laughlin Steel Corp. .................... | 206,296,000 |
| Kennecott Copper Corp. .................... | 295,612,000 |
| National Lead Co. .................... | 104,363,000 |
| National Steel Corp. .................... | 157,523,000 |
| Phelps Dodge Corp. .................... | 207,392,000 |
| Republic Steel Corp. .................... | 290,621,000* |
| United States Smelting, Refining & Mining Co. .... | 78,474,000 |
| U. S. Steel Corp. .................... | 2,279,802,000 |
| Wheeling Steel Corp. .................... | 112,836,000 |
| Youngstown Sheet & Tube Co. .................... | 236,024,000 |
| | |
| *Paper Companies* (4)....................$ | 1,098,454,000 |
| Crown Zellerbach Corp. .................... | 118,183,000 |
| International Paper & Power Co. .................... | 804,664,000 |

| | | |
|---|---|---|
| Minnesota & Ontario Paper Co.[c] | | 87,698,000 |
| St. Regis Paper Co. | | 87,909,000 |
| *Petroleum Companies* (16) | $ | 7,467,054,000 |
| Atlantic Refining Co. | | 160,489,000 |
| Consolidated Oil Corp. | | 376,419,000 |
| Continental Oil Co. | | 153,617,000 |
| Gulf Oil Corp. of Pa. | | 452,737,000 |
| Ohio Oil Co. | | 180,052,000 |
| Phillips Petroleum Co. | | 201,363,000 |
| Pure Oil Co. | | 213,475,000 |
| Shell Union Oil Corp. | | 439,545,000 |
| Socony-Vacuum Corp. (now Socony-Vacuum Oil Co., Inc.) | | 1,038,601,000 |
| Standard Oil Co. of California | | 590,729,000 |
| Standard Oil Co. (Indiana) | | 762,729,000 |
| Standard Oil Co. (New Jersey) (plus $92,000,000 of stock held by Standard Oil of Indiana) | | 1,827,010,000 |
| Sun Oil Company | | 95,920,000 |
| Texas Corp. | | 543,329,000 |
| Tide Water Associated Oil Co. | | 228,770,000 |
| Union Oil Associates[e] | | 202,259,000 est. |
| *Rubber Companies* (4) | $ | 670,849,000 |
| Firestone Tire & Rubber Co. | | 139,885,000 |
| Goodrich (B. F.) Co. | | 139,111,000 |
| Goodyear Tire & Rubber Co. | | 207,362,000 |
| United States Rubber Co. | | 184,491,000 |

MISCELLANEOUS

| | | |
|---|---|---|
| *Amusement Companies* (6) | $ | 1,229,306,000 |
| Eastman Kodak Co. | | 152,175,000 |
| General Theatres Equipment, Inc.[f] (incl. Fox Film) | | 235,576,000 est. |
| Loew's, Inc. (plus $22,634,000 held by General Theatres subsidiary) | | 106,799,000 |
| Paramount Publix Corp.[g] | | 298,304,000 |
| Radio Corp. of America[h] (incl. R-K-O) | | 222,595,000 |
| Warner Brothers Pictures, Inc. | | 213,857,000 |
| *Real Estate and Construction Company* (1) | $ | 106,119,000 |
| [e]United States Realty & Improvement Co. | | 106,119,000 |
| *Retail Trade Companies* (9) | $ | 1,327,905,000 |
| Drug, Inc.[c] | | 173,408,000 |
| Gimbel Brothers, Inc. | | 89,054,000 |
| Great Atlantic & Pacific Tea Co. of America | | 183,013,000 |
| Kresge (S. S.) Co. | | 118,262,000 |
| Macy (R. H.) & Co. | | 96,031,000 |
| Marshall Field & Co. | | 111,727,000 |

*Retail Trade Companies* (continued)

| | |
|---|---|
| Montgomery Ward & Co. | 152,117,000 |
| Sears Roebuck & Co. | 228,428,000 |
| Woolworth (F. W.) Co. | 175,865,000 |
| TOTAL—200 Corporations | $81,437,650,000 |

[a] In receivership or bankruptcy. Bankruptcy of a company may not involve bankruptcy of that company's subsidiaries.
[b] Its top operating company is in bankruptcy.
[c] Receivership terminated. Assets transferred to Commonwealths Distribution, Inc.
[d] Bankrupt and liquidated, August, 1932.
[e] Merged into Union Oil Co. of California, December, 1932.
[f] In receivership. Fox Film escaped receivership and in August, 1935, merged into a new company, Twentieth Century-Fox Film Corp., in which General Theatres has no important interest. General Theatres' minority interest in Loew's, Inc., has also been liquidated.
[g] Reorganized under Federal Bankruptcy Act as Paramount Pictures, Inc.
[h] Radio Corp.'s subsidiary, Radio-Keith Orpheum Corp., is reorganizing under Federal Bankruptcy Act. Half of Radio Corp.'s interest in R-K-O was sold in October, 1935, to Atlas Corp. and Lehman Bros., who also took an option for purchase of the remainder.
[i] Broken up into five companies.

## APPENDIX C

(See Chapter II, p. 33.)

### MORGAN PARTNERS

J. P. MORGAN & CO., NEW YORK

Arthur M. Anderson
Francis D. Bartow
Thomas Cochran
Henry P. Davison
Charles D. Dickey
S. Parker Gilbert
Edward Hopkinson, Jr.
Thomas S. Lamont
Thomas W. Lamont
Russell C. Leffingwell
Horatio G. Lloyd
John Pierpont Morgan
Junius S. Morgan, Jr.
Thomas Newhall
Charles Steele
Edward T. Stotesbury
George Whitney

DREXEL & CO., PHILADELPHIA

Same as J. P. Morgan & Co., plus the following:
H. Gates Lloyd, Jr.
Arthur E. Newbold, Jr.

MORGAN & CIE., PARIS

Same as J. P. Morgan & Co., plus the following:
B. S. Carter
J. Ridgely Carter
Maurice Pesson-Didion
Nelson Dean Jay
Alan Vasey Arragon, since January 1, 1933
Harry A. Watkins, since January 1, 1934

MORGAN, GRENFELL & CO., LTD., LONDON

J. P. Morgan & Co. owns controlling capital in this private limited company whose directors are:

| | |
|---|---|
| Sir Thomas S. Catto, Bt. | John Pierpont Morgan |
| Edward C. Grenfell, M.P. | R. H. Vivian Smith |
| Michael G. Herbert (died 1932) | Vivian Hugh Smith |
| Hon. F. J. R. Rodd (since Jan. 1, 1933) | Charles F. Whigham |

MORGAN STANLEY & CO., INC., NEW YORK

| | |
|---|---|
| William Ewing[a] | Henry S. Morgan[a] |
| Perry E. Hall[b] | Harold Stanley[a] |
| A. N. Jones | Edward H. York, Jr.[b] |
| John M. Young | |

[a] Former partner in J. P. Morgan & Co.
[b] Former partner in Drexel & Co.

# APPENDIX D

(See Chapter II, page 42.)

## COMPANIES UNDER MORGAN INFLUENCE THROUGH DIRECTORSHIP AND/OR BANKING SERVICES

The 444 companies whose connection with the Morgan interests has been traced are made up of four groups as follows:—

I. 95 companies, assets $30.0 billion; 20 companies, assets not reported.
II. 42 companies, assets $16.2 billion; 10 companies, assets not reported.
III. 80 companies, assets $16.5 billion; 12 companies, assets not reported.
IV. 145 companies, assets $14.9 billion; 40 companies, assets not reported.

Group I consists of companies which had a Morgan partner on the board of directors on January 1, 1932. The reader will note that the list includes a very few companies in which this direct Morgan link was present only through one or more subsidiaries. Such companies are included only when there is other clear evidence of strong Morgan influence in the parent company. In 1935, the number of companies including a Morgan partner on the board of directors is somewhat smaller than it was in 1932. Nine banks were taken off the list by changes following the Banking Act of 1933 or by merger. The management of Morgan utility systems has also been reorganized. But with the possible exception of the International Mercantile Marine Corp. the changes do not indicate the passing of control away from the Morgan group. During the same period (1932-35) Morgan partners were added to the boards of three important foreign companies. These changes are noted in the lists which follow.

Group II consists of companies whose directors included on January 1,

1932, at least one representative of the Morgan-Baker controlled First National Bank of New York or of Bonbright & Co., Inc. Since that date, the Bonbright firm has been completely reorganized and two important members have resigned from the firm and from several of their former corporation connections. Changes seem to have removed Morgan influence from Tide Water Associated Oil Co. and to have brought the important Prudential Insurance Co. of America closer to the Morgan group. Otherwise no shift in control is apparent.

Groups I and II, with the exceptions noted, represent the area in which the Morgan group is probably the dominant force.

Group III, consisting of companies tied to the inner Morgan group through some banking relationship, includes varying degrees of Morgan influence. We have not attempted to separate the companies in this group according to their nearness to Morgan. It should be noted, however, that they include three railroads for which Morgan still performs certain banking functions although control has passed to the Pennsylvania Railroad. This group includes also the two leading Standard Oil companies which are clearly under Rockefeller control.

Group IV, like Group III, represents varying degrees of Morgan influence. It is made up of companies whose directors include any "Morgan" man—not a partner in the Morgan firm—who was on one of four leading New York banks on January 1, 1932: Bankers Trust Co., Guaranty Trust Co., Chase National Bank, National City Bank. Although the boards of these banks were greatly reduced under the Banking Act of 1933 and several of these men are no longer included, they are still "Morgan" men and represent a clear section of indirect Morgan influence. Again, total number of directorships is smaller in 1935 than it was in 1932, but no important loss of Morgan influence is indicated.

Groups III and IV are made up of companies under Morgan influence. They do not, in the main, represent Morgan control.

GROUP I. CORPORATIONS HAVING A MORGAN PARTNER ON BOARD OF DIRECTORS

| | *Companies with Assets* Over $75,000,000 | Under $75,000,000 | Not Reported | *Reported Assets as of Jan. 1, 1932* |
|---|---|---|---|---|
| Banks | 14 | 4 | 1 | $ 8,892,232,000 |
| Other Financial | 4 | 12 | 3 | 1,314,786,000 |
| Real Estate, etc. | — | 1 | 4 | 43,368,000 |
| Railroads, etc. | 7 | 3 | — | 4,239,571,000 |
| Public Utilities | 8 | 4 | 2 | 9,107,638,000 |
| Miscellaneous | 12 | 26 | 10 | 6,428,818,000 |
| TOTAL | 45 | 50 | 20 | $30,026,413,000 |

*A. Large Companies (Assets over $75,000,000).*

*Banks* (14)* .......................................... $8,734,762,000

Bank for Savings in the City of New York: G. Whitney.
Bankers Trust Co. (N. Y.): T. Cochran, W. Ewing, S. P. Gilbert. Also T. Cochran on subsidiary, Astor Safe Deposit Co.
Corn Exchange Bank Trust Co. (N.Y.): F. D. Bartow. No Morgan partner in 1935 but indirect link still present.
Fidelity-Philadelphia Trust Co.: E. T. Stotesbury. No Morgan partner in 1935 but indirect links still present.
First National Bank of the City of New York, through affiliate, First Security Co.: J. P. Morgan, T. W. Lamont. Affiliate liquidated but close Morgan links still present.
Girard Trust Co. (Phila.): E. Hopkinson, E. T. Stotesbury. No Morgan partner in 1935 but indirect link still present.
Guaranty Trust Co. of N.Y.: T. W. Lamont, G. Whitney.
National City Bank of N.Y., through affiliate, City Bank Farmers Trust Co.: C. D. Dickey. No Morgan partner in 1935, but at least four other Morgan men on National City itself: S. Behn, C. E. Calder, P. A. S. Franklin, G. Swope. See Chapter VI, p. 89.
New York Trust Co.: A. M. Anderson, H. P. Davison.
Pennsylvania Co. for Insurances on Lives and Granting Annuities (Phila.): H. G. Lloyd. No Morgan partner in 1935, but at least two other Morgan links.
Philadelphia Savings Fund Society: E. Hopkinson.
Western Saving Fund Society of Phila.: C. D. Dickey.

*Foreign banks (British-controlled)*

Bank of England: E. C. Grenfell.
Hongkong & Shanghai Banking Corp.: C. F. Whigham.

*Other Financial Companies* (4) ........................ $1,033,562,000
Discount Corp. of N.Y.: J. P. Morgan.
Home Life Insurance Co.: F. D. Bartow. Off in 1935, but succeeded by H. J. Cochran, official of Bankers Trust Co.
United Corp.: E. Hopkinson, H. Stanley, G. Whitney. (Also on subsidiary, N.Y. United Corp.) Hopkinson and Stanley off in 1935.

*Foreign company (British-controlled)*

Sun Life Assurance Society: E. C. Grenfell.

*Railroads, etc.* (7) .................................. $4,181,997,000
Atchison, Topeka & Santa Fe Railway Co.: C. Steele.
Northern Pacific Railway Co.: P. E. Hall, T. W. Lamont, R. C. Leffingwell.
Pullman, Inc.: J. P. Morgan, G. Whitney. (Also on subsidiary.)
Reading Co.: E. T. Stotesbury. (Also on three subsidiaries.)
Southern Railway Co., through subsidiary, Southwestern Construction Co.: T. W. Lamont. Morgan firm is also banker for this road, and J. E. Reynolds, of First National Bank, is on the board of the railroad.
Western Pacific R. R. Corp.:[5] A. M. Anderson. Off in 1935, but linked through A. C. James, Morgan ally, director of First National Bank.

*Foreign railroad*

National Railways of Mexico: T. W. Lamont.

*Public Utilities* (8)[6] ................................ $9,060,286,000
American Telephone & Telegraph Co.: H. G. Lloyd on two subsidiaries. Close banking relations with Morgan firm and First National Bank; several First National Bank directors.

Columbia Gas & Electric Corp.: H. Stanley. Resigned, February, 1935, but Morgan influence still important.
Consolidated Gas Co. of New York: G. Whitney. (Also on subsidiary, N.Y. Edison Co.)
International Telephone & Telegraph Corp.: A. M. Anderson, R. C. Leffingwell. (Also on subsidiary.)
Niagara Hudson Power Corp.: H. Stanley. No Morgan partner in 1935, but at least four other close Morgan links.
Philadelphia Rapid Transit Co.:[a] E. Hopkinson and E. T. Stotesbury hold three directorships on two subsidiaries. Hopkinson is one of the three receivers.
Public Service Corp. of N.J.: E. Hopkinson.
United Gas Improvement Co.: C. D. Dickey, E. Hopkinson. (Also Hopkinson, Lloyd and Newhall hold among them eight directorships on four subsidiaries.)

*Miscellaneous Industrial Companies* (12) ................ $5,681,242,000
American Radiator & Standard Sanitary Corp.: F. D. Bartow.
Baldwin Locomotive Works:[a] T. Newhall. (Also on Midvale Co. and eight other subsidiaries.)
Continental Oil Co.: T. S. Lamont, G. Whitney.
General Electric Co.: F. D. Bartow, T. Cochran. (Also on two subsidiaries.)
General Motors Corp.: J. S. Morgan, G. Whitney.
International Harvester Co., Inc.: T. W. Lamont. No Morgan partner in 1935, but at least two other Morgan links.
Kennecott Copper Corp.: T. Cochran, H. S. Morgan, G. Whitney. (These three and W. Ewing hold also 16 directorships on seven subsidiaries.)
Lehigh Valley Coal Corp.: S. P. Gilbert. (Gilbert and E. H. York hold also three directorships on two subsidiaries.) This company is not among largest 200.
Montgomery, Ward & Co.: H. P. Davison.
Phelps, Dodge Corp.: T. S. Lamont.
Philadelphia & Reading Coal & Iron Corp.: A. E. Newbold, T. Newhall. (Also on subsidiary.)
U. S. Steel Corp.: T. W. Lamont, J. P. Morgan, J. S. Morgan.

*B. Small Companies (Assets under $75,000,000)*

*Banks* (4) ........................................... 157,470,000
Germantown Trust Co. (Phila.): E. Hopkinson.
Integrity Trust Co. (Phila.): C. D. Dickey. No Morgan partner in 1935, but close Morgan link still present.
Northern Trust Co. (Phila.): H. G. Lloyd, Jr. No Morgan partner in 1935.

*Foreign banks (British-controlled)*

Mercantile Bank of India, Ltd.: T. S. Catto.

*Other Financial Companies* (12)[a] ....................... $281,224,000
Ætna Insurance Co.: J. P. Morgan. (Also on two subsidiaries.)
Church Life Insurance Corp.: J. P. Morgan.
Church Properties Fire Insurance Corp.: J. P. Morgan.
Fire Association of Philadelphia: C. D. Dickey. (Also on two subsidiaries.)

Provident Loan Society of N.Y.: R. C. Leffingwell. Off in 1935, but Morgan represented by G. F. Baker of First National Bank.
Transportation Mutual Insurance Co.: E. T. Stotesbury.
United States Guarantee Co.: A. M. Anderson.

*Foreign companies*

English and New York Trust Co., Ltd.: R. H. V. Smith.
North British & Mercantile Insurance Co., Ltd., of London and Edinburgh, U. S. Branch: R. C. Leffingwell. (Also on one American subsidiary and E. Hopkinson on another.)
Royal Exchange Assurance Corp. (London): V. H. Smith. (Also G. Whitney on three American subsidiaries.)
Société Centrale pour l'Industrie Electrique: M. Pesson-Didion.
Sun Insurance Office, Ltd.: E. C. Grenfell.

*Real Estate & Construction Company* (1) .................. $43,368,000
General Realty & Utilities Corp., through its subsidiary, Thompson-Starrett Co., Inc.: T. Cochran. But no Morgan partner on board in 1935.

*Railroads* (3) .......................................... $57,574,000
Lehigh & Hudson River Railway Co.: E. T. Stotesbury. (Also on a subsidiary.)
New York & Long Branch R.R. Co. (affiliate of Reading): E. T. Stotesbury.
Richmond-Washington Co.: W. Ewing. No Morgan partner on board in 1935, but indirect Morgan links through at least three of the six railroads which jointly control this small road.

*Public Utilities* (4) ...................................... $47,352,000
Wyoming Valley Water Supply Co.: E. T. Stotesbury.

*Foreign companies*

Energie Electrique du Sud-Ouest: M. Pesson-Didion.
Oriental Telephone & Electric Co., Ltd.: T. S. Catto. (Also on a subsidiary.)
Transports, Electricité et Gaz (Constantinople): M. Pesson-Didion.

*Miscellaneous Industrial Companies* (26) .................. $747,576,000
American Pulley Co.: C. D. Dickey.
Associated Dry Goods Corp.: W. Ewing. (Also on a subsidiary.)
Case (J. I.) Co.: W. Ewing.
Cuban Tobacco Co., Inc.: V. Munroe (member of Morgan staff).
Crowell Publishing Co.: T. W. Lamont. No Morgan partner in 1935, but Morgan group still represented through A. H. Lockett.
De Bardeleben Coal Corp.: E. H. York, Jr. (Has filed petition under new Federal Bankruptcy Act.)
Franklin County Coal Co., Inc.: E. H. York, Jr.
General Asphalt Co.: H. G. Lloyd.
General Steel Castings Corp.: A. M. Anderson, T. Newhall. (Jointly owned by five companies all under Morgan influence or control.)
Great Lakes Pipe Line Co.: T. S. Lamont. (Jointly owned by six oil companies including Morgan-controlled Continental Oil.)
Hires (Chas. E.) Co.: H. G. Lloyd, Jr.
International Agricultural Corp.: T. W. Lamont.
International Mercantile Marine Co.: J. P. Morgan, C. Steele. Both resigned in 1932. Extent of Morgan power now not clear.

Johns-Manville Corp.: F. D. Bartow, G. Whitney.
Keystone Watch Case Corp.: E. Hopkinson.
Lamont, Corliss & Co.: T. W. Lamont.
St. Joseph Lead Co., through its subsidiary, Aguilar Corp.: V. Munroe (member of Morgan staff).
Sharp & Dohme, Inc.: C. D. Dickey, T. Newhall.
Standard Brands, Inc.: H. P. Davison, W. Ewing.
Stonega Coke & Coal Co.: C. D. Dickey.
Texas Gulf Sulphur Co.: T. S. Lamont, G. Whitney.

*Foreign companies*

Anglo-American Corp. of So. Africa, Ltd.: V. Munroe (member of Morgan staff).
Associated Electrical Industries, Ltd.: V. H. Smith. (Affiliate of General Electric.)
Cerro de Pasco Copper Corp. (Peru): S. Steele. No Morgan partner on this company in 1935. Hearst-controlled.
Compagnie Française pour l'Exploitation des procédés Thomson-Houston: M. Pesson-Didion. (Affiliate of General Electric.)
Electric & Musical Industries, Ltd.: M. G. Herbert (died, 1932). See Chapter XII, page 180.

### *C. Assets Not Reported*

*Bank* (1)
Main Line Trust Co. (Ardmore, Pa.): H. G. Lloyd, Jr. Merged in 1934 with Pennsylvania Company for Granting Insurances, etc.

*Other Financial Companies* (3)
American Foreign Securities Co.: T. Cochran.
Foreign Finance Corp. of America: A. M. Anderson, T. Cochran, T. W. Lamont, J. S. Morgan.
Teachers Insurance & Annuity Ass'n.: G. Whitney.

*Real Estate Companies* (4)
87th Street & East End Ave. Corp.: T. Cochran.
1172 Park Ave. Corp.: V. Munroe (member of Morgan staff).
150 William St. Corp.: F. D. Bartow.
Bellevue-Stratford Hotel Co.: E. T. Stotesbury.

*Public Utilities* (2): *Foreign*
Société Financière Electrique: N. D. Jay, M. Pesson-Didion.
Société des Forces Motrices de la Truyère: M. Pesson-Didion.

*Miscellaneous Industrial Companies* (10)
Beaver Coal Co.: E. T. Stotesbury, C. D. Dickey.
Highland Coal Co.: E. T. Stotesbury.
Markle Corp.: H. G. Lloyd, Jr., A. E. Newbold, Jr., E. H. York, Jr.
Philadelphia Steel & Wire Corp.: P. E. Hall.
Quebrades Co.: V. Munroe (member of Morgan staff).
Riverside Metal Co. (Phila.): E. Hopkinson.
Time, Inc.: M. Egan (member of Morgan staff).

Wilkes-Barre & Hazelton Corp.: A. E. Newbold, Jr.

*Foreign companies*

Yule (Andrew) & Co., Ltd. (Calcutta): T. S. Catto, R. H. V. Smith.

Yule, Catto & Co., Ltd. (London): T. S. Catto, R. H. V. Smith, V. H. Smith, C. F. Whigham.

## II. Corporations Whose Directors Include a Director or Official of First National Bank of the City of New York or of Bonbright & Co., Inc.

| | *Companies with Assets* Over $75,000,000 | Under $75,000,000 | Not Reported | *Reported Assets as of Jan. 1, 1932.* |
|---|---|---|---|---|
| Banks | 4 | 1 | – | $ 2,010,639,000 |
| Other Financial | 2 | 9 | 3 | 1,420,958,000 |
| Real Estate, etc. | – | – | 2 | – – |
| Railroads, etc. | 8 | 1 | – | 7,937,222,000 |
| Public Utilities | 5 | 2 | – | 4,162,691,000 |
| Miscellaneous | 3 | 7 | 5 | 666,069,000 |
| Total | 22 | 20 | 10 | $16,197,579,000 |

### *A. Large Companies (Assets over $75,000,000)*

*Banks* (4) .......... $2,009,539,000

Central Hanover Bank & Trust Co. (N.Y.): A. L. Loomis. Off before 1935, but Morgan still indirectly represented.

Irving Trust Co. (N.Y.): S. A. Mitchell. Off before 1935, but three outside Morgan men on board.

Marine Midland Corp., through subsidiary, Marine Midland Trust Co. of N.Y.: G. B. St. George. Also outside Morgan men on parent company and on other subsidiaries.

U. S. Trust Co. of N.Y.: G. F. Baker, A. C. James.

*Other Financial Companies* (2)[f] .......... $1,237,220,000

American Superpower Corp.: L. K. Thorne, A. L. Loomis, H. S. Scarritt, G. Roberts.

Mutual Life Insurance Co. of N. Y.: G. F. Baker, M. C. Taylor.

*Railroads* (8) .......... $7,914,504,000

Baltimore & Ohio R.R. Co.: J. R. Morron.

Chicago & North Western Ry. Co.:[d] H. S. Vanderbilt. (Also on a subsidiary.)

Chicago, Burlington & Quincy Ry. Co.: A. C. James. (Also on subsidiary, Colorado & Southern Ry. Co.) C. B. & Q. is jointly controlled by Northern Pacific and Great Northern Ry. Co.

Delaware, Lackawanna & Western R.R. Co.: H. S. Sturgis.

Great Northern Ry. Co.: A. C. James.

N. Y. Central R.R. Co.: G. F. Baker, J. E. Reynolds, M. C. Taylor, H. S. Vanderbilt. Also these four hold at least 36 directorships on at least 14 subsidiaries.

Southern Pacific Co.: J. E. Reynolds.

Spokane, Portland & Seattle Ry.: no director but entire stock is owned by Northern Pacific and Great Northern.

*Public Utilities* (5) .................................. $4,088,878,000
Electric Bond & Share Co., through subsidiary, American & Foreign Power Co., Inc.; S. A. Mitchell.
American Gas & Electric Co.: S. A. Mitchell.
American Power & Light Co.: S. A. Mitchell.
Commonwealth & Southern Corp.: L. K. Thorne, A. L. Loomis. Off in 1935, but Morgan still represented by S. Sloan Colt, official of Bankers Trust Co.
United Light & Power Co.: G. Roberts. Off in 1935.

*Miscellaneous Industrial Companies* (3) ................ $533,802,000
Glen Alden Coal Co.: J. E. Reynolds. Off in 1935, but H. S. Sturgis is still director of subsidiary, Delaware, Lackawanna & Western Coal Co. Also strong banking influence.
National Biscuit Co.: J. E. Reynolds.
Tide Water Associated Oil Co.: J. E. Reynolds, H. S. Sturgis. Off in 1935.

*B. Small Companies (Assets under $75,000,000)*

*Bank* (1)........................................... $ 1,100,000
*Other Financial Companies* (9)......................... 183,738,000
*Railroad* (1) ........................................ 22,718,000
*Public Utilities* (2).................................. 73,813,000

*Foreign:* European Electric Corp., Ltd.
Italian Superpower Corp.

*Miscellaneous Industrial Companies* (7)................... 132,267,000

III. Companies Having Morgan Firm, First National Bank (N.Y.), Bonbright & Co., Inc., as Banker

| | *Companies with Assets* Over $75,000,000 | Under $75,000,000 | Not Reported | *Reported Assets as of Jan. 1, 1932* |
|---|---|---|---|---|
| Financial Companies ... | 1 | 1 | 1 | $ 197,660,000 |
| Railroads, etc. ........ | 13 | 9 | – | 5,846,193,000 |
| Public Utilities ....... | 4 | 4 | – | 2,281,291,000 |
| Miscellaneous ......... | 20 | 28 | 11 | 8,137,230,000 |
| Total .......... | 38 | 42 | 12 | $16,462,374,000 |

*A. Large Companies (Assets over $75,000,000)*

*Financial Company* (1) ................................ $ 141,422,000
Hartford Fire Insurance Co.

*Railroads, etc.* (13)................................... $5,608,037,000
Alleghany Corp.[a] (including Chesapeake & Ohio R.R., Erie R.R., Pere Marquette, New York, Chicago & St. Louis, Wheeling & Lake Erie).

Chicago & Eastern Illinois, controlled by minority holdings and not having Morgan as banker, is not included in this list.

Missouri Pacific R.R. Co.[4]

Atlantic Coast Line R.R. Co. (including Louisville & Nashville).
Boston & Maine R.R. Co.
Chicago Great Western R.R. Co.[4]
Chicago & Western Indiana R.R. Co.
Denver & Rio Grande Western R.R. Co.[4]
Florida East Coast Ry. Co.[4]
General American Tank Car Corp., now General American Transportation Corp.
Lehigh Valley R.R. Co.
New York, New Haven & Hartford R.R. Co.[5]
Terminal R.R. Association of St. Louis. This company is not among largest 200.

*Foreign railroad*

Chemin de Fer du Nord (Nord Railway Co.), France.

*Public Utilities* (4) .................................. $2,142,297,000

Of the Electric Bond & Share group:
Electric Power & Light Corp.
National Power & Light Co.
American Water Works & Electric Co., Inc.
Interborough Rapid Transit Co. (N.Y.)[4]

*Miscellaneous Industrial Companies* (20) ................. $7,301,978,000

American Can Co.
American Car & Foundry Co.
American Tobacco Co.
Bethlehem Steel Corp.
Borden Co.
Continental Can Co., Inc.
Crane Co.
E. I. duPont de Nemours & Co.
Eastman Kodak Co.
Firestone Tire & Rubber Co.
Goodrich (B. F.) Co.
Koppers Co.
Lehigh Coal & Navigation Co.
Procter & Gamble Co.
Radio Corp. of America.
Socony-Vacuum Corp., now Socony-Vacuum Oil Co., Inc. Rockefeller-controlled.
Standard Oil Co. (New Jersey). Rockefeller-controlled. (Also a subsidiary.)
U. S. Rubber Co.

*Foreign companies*

F.I.A.T. (Italian automobile and metal-manufacturing company.)
Nitrate Corp. of Chile (Cosach).[8]

*B. Small Companies (Assets under $75,000,000)*

*Financial Company* (1) ................................. $ 56,238,000
*Railroads, etc.* (9) ..................................... 238,156,000

*Public Utilities* (4) .................................... 138,994,000
*Foreign:* Taiwan Electric Power Co., Ltd.

*Miscellaneous Industrial Companies* (28).................. 835,252,000
*Foreign:* Hudson Bay Mining & Smelting Co., Ltd.
Rhodesian Anglo-American Co., Ltd.
Rhokana Corp., Ltd.
Societa Italiana Pirelli

IV. Companies Having at Least One Director Who Is a "Morgan" Man (Not a Partner) from Bankers Trust Co., Guaranty Trust Co., Chase National Bank, or National City Bank, as of January 1, 1932.

| | *Companies with Assets* | | | *Reported* |
|---|---|---|---|---|
| | *Over $75,000,000* | *Under $75,000,000* | *Not Reported* | *Assets as of Jan. 1, 1932* |
| Banks ........... | 11 | 10 | 1 | $ 4,525,199,000 |
| Other Financial ... | 3 | 37 | 11 | 5,246,746,000 |
| Real Estate, etc. .. | — | 3 | 6 | 93,756,000 |
| Railroads, etc. .... | 2 | 1 | — | 591,801,000 |
| Public Utilities ... | 1 | 3 | — | 352,956,000 |
| Miscellaneous .... | 10 | 64 | 22 | 4,136,365,000 |
| Total ...... | 27 | 118 | 40 | $14,946,823,000 |

*A. Large Companies (Assets over $75,000,000)*

*Banks* (11)..........................................$4,365,850,000
Central Savings Bank in the City of New York: J. G. Harbord.
Chase National Bank of the City of N. Y.: Seward Prosser and C. H. Sabin were on Chase subsidiaries. Several other Morgan men outside of our classification were on Chase National Bank itself. Since 1930 (merger with Equitable Trust Co.) Chase has been controlled by Rockefeller. Morgan connections are fewer in 1935 than they were in 1932.
Detroit Bankers Co.: F. J. Fisher. Also on First Wayne National Bank (Detroit). Closed during banking crisis of February-March, 1933, and never reopened.
Dry Dock Savings Institution: W. P. Belknap.
Fidelity Union Trust Co. (Newark, N. J.): T. N. McCarter.
First National Bank in Dallas (Texas): C. E. Calder. (Off in 1935; now Morgan through F. M. Hoag.)
First National Bank of Seattle: F. H. Brownell.
Franklin Savings Bank: H. J. Cochran, J. I. Downey.
National Shawmut Bank of Boston: H. Blair-Smith (died).
Seamen's Bank for Savings (N. Y.): S. Prosser. (Off in 1935.)
Security-First National Bank of Los Angeles: W. H. Booth. (Off in 1935.)

*Other Financial Companies* (3)..........................$4,666,751,000
New York Life Insurance Co.: J. G. Harbord.

Prudential Insurance Co. of America:[f] W. P. Conway.
U. S. & Foreign Securities Corp. (including U. S. & International Securities Corp.): G. M-P. Murphy.

*Railroads* (2)[a] ........................................ $ 549,269,000
Missouri-Kansas-Texas R.R. Co.: E. W. Stetson.
Seaboard Air Line Ry. Co.: F. N. B. Close (died). Seaboard is in receivership and G. M-P. Murphy is chairman and E. W. Stetson is a member of one of the bondholders' committees.

*Public Utility* (1) ........................................ $ 287,919,000
Detroit Edison Co.: B. A. Tompkins.

*Miscellaneous Industrial Companies* (10)[c] .................. $2,724,918,000
American Locomotive Co.: S. Prosser.
American Smelting & Refining Co.: F. H. Brownell, H. J. Cochran.
Consolidation Coal Co.:[d] F. W. Shibley. Rockefeller-controlled.
Goodyear Tire & Rubber Co.: G. M-P. Murphy.
International Paper & Power Co.: F. N. B. Close (died, succeeded by A. A. Tilney).
St. Regis Paper Co.: F. L. Carlisle, H. E. Machold.
Shell Union Oil Corp.: C. H. Sabin. (Sabin died. Morgan indirectly linked through A. O. Choate and L. L. Clarke, not included in this classification.)
Texas Corp.: J. N. Hill (died). In 1935, at least two indirect Morgan links: W. J. Cummings and R. C. Shields.
Wilson & Co.: E. A. Potter, Jr.

*Foreign company*

International Nickel Co. of Canada, Ltd.: S. Prosser.

*B. Small Companies (Assets under $75,000,000)*

*Banks* (10) ........................................ $ 159,349,000
*Other Financial Companies* (37) ........................ 579,995,000
***Foreign:*** Finance Co. of Great Britain & America, Ltd.
London Guarantee & Accident Co., Ltd., U. S. Branch.

*Real Estate and Construction Companies* (3) .............. $ 93,756,000
*Railroad* (1) ........................................ 42,532,000
*Public Utilities* (3) ........................................ 65,037,000
*Miscellaneous Industrial Companies* (64) .................. 1,411,447,000
***Foreign:*** Granby Consolidated Mining, Smelting & Power Co., Ltd.
Société d'Electricité et de Mécanique (Brussels).

[a] Added since Jan. 1, 1932, and not included in this total: Royal Bank of Scotland, of which T. S. Catto is now an extraordinary director.
[b] Its top operating company is in bankruptcy.
[c] Added since Jan. 1, 1932, and not included in this total: "Sofina" (Société Financière de Transports et d'Entreprises Industrielles) of which M. Pesson-Didion is now a director.
[d] In receivership or bankruptcy. Bankruptcy of a company may not involve bankruptcy of that company's subsidiaries.

[e] Added since Jan. 1, 1932, and not included in this total: Credit Mobilier Industriel, of which A. V. Arragon is director.

[f] Added since Jan. 1, 1932, and not included in total of Group II: Prudential Insurance Co. of America, of which J. E. Reynolds is now a director. Prudential is included, however, in Group IV.

[g] Bankrupt and in liquidation.

[h] Added since Jan. 1, 1932, and not included in this total: Illinois Central R.R. Co., of which E. W. Stetson is now a director.

[i] Added since Jan. 1, 1932, and not included in this total: Anaconda Copper Mining Co., of which G. M-P. Murphy is now a director.

## APPENDIX E

(See Chapter III, pp. 56 *ff.*)

### COMPANIES LINKED TO ROCKEFELLER THROUGH STOCK OWNERSHIP OR DIRECTORSHIP

The 287 companies whose links with the Rockefeller interests have been traced fall into three groups, as follows:

I. 33 companies, assets $15.6 billion; 10 companies, assets not reported.
II. 152 companies, assets $23.5 billion; 49 companies, assets not reported.
III. 42 companies, assets $5.8 billion; 2 companies, assets not reported.

In Group I. we list 15 companies whose directors included on January 1, 1932, John D. Rockefeller, Jr., or a member of the "cabinet" described in Chapter III, p. 56; also the 19 companies of the Standard Oil group in which the John D. Rockefeller family or the principal Rockefeller institutions are believed to hold some considerable interest.

In Group II. we show the connections traced through "Rockefeller" men on the board of Chase National Bank (exclusive of "cabinet" members included in Group I.) or through the officials (as of January 1, 1932) of the largest five oil companies among the 19 listed in Group I. Since January 1, 1932, the Chase Board has been greatly reduced. Our Chase list is based chiefly on "Rockefeller" men who were on that date and were still in 1935 on the Chase board or serving as vice-presidents of the bank. In addition, we include the 1932 connections of George M. Moffett, George Welwood Murray, and Henry E. Cooper, three "Rockefeller" men who were, but no longer are, connected with the bank.

In Group III. we list the companies on which Percy A. Rockefeller or other members of the William Rockefeller family were directors on January 1, 1932. Percy A. Rockefeller has since died and apparently left no interests as compact and definite as those managed by the John D. Rockefeller family. This group is therefore of minor importance in the present Rockefeller domain. On the relation between the Percy A. Rockefeller and John D. Rockefeller interests, see Chapter III, especially page 57.

Assets figures do not include the large real estate holdings of the John D. Rockefeller interests which are especially important in New York City. Also they do not include any estimate of indirect banking influence through Chase National Bank in companies on which Chase officials hold no directorship. This estimate therefore includes nothing strictly comparable with the Group III. of the Morgan estimate in Appendix D. But this lack is *relatively* unimportant since the Morgan Group III. includes nothing for any Morgan commercial bank except First National Bank of New York. It excludes the indirect banking influence of Bankers Trust Co. and Guaranty Trust Co. which are almost as close to the Morgan firm as Chase National Bank is to the John D. Rockefeller interests.

Whether these directorship links indicate a dominant position is always an important question in such estimates. It is especially to be noted that the Rockefeller totals include 62 companies appearing also on the Morgan lists and four other companies in which Morgan influence is clearly present although it does not operate through the links which we have included in our Morgan tabulation. In 14 of these 66 companies with $5.8 billion of assets, the Morgan influence is secondary to Rockefeller dominance or control. In a larger group (30 companies) with about $4.5 billion of assets, we have not been able to determine whether Morgan or Rockefeller influence carries the greater weight. But in 22 companies, with more than $19 billion of assets, the Morgan influence is clearly stronger than the Rockefeller influence. Companies with which both financial groups have some clear connection are listed in Appendix F, p. 334.

GROUP I. COMPANIES OF THE JOHN D. ROCKEFELLER INNER GROUP

| | *Companies with Assets* | | | *Reported* |
|---|---|---|---|---|
| | *Over $75,000,000* | *Under $75,000,000* | *Not Reported* | *Assets as of Jan. 1, 1932* |
| Banks | 3 | 2 | — | $ 2,828,656,000 |
| Other Financial | 1 | 4 | — | 1,523,417,000 |
| Real Estate | — | — | 10 | — — — |
| Railroads | 1 | — | — | 2,200,900,000 |
| Public Utilities | 1 | — | — | 4,235,749,000 |
| Miscellaneous | 6 | 15 | — | 4,776,796,000 |
| TOTAL | 12 | 21 | 10 | $15,565,518,000 |

*A. Large Companies (Assets over $75,000,000)*

*Banks* (3) ....................$2,814,782,000

Bankers Trust Co. (Morgan-controlled): A. Woods. Off in 1935, but Rockefeller indirectly represented through H. L. Pratt.

Chase National Bank of the City of New York: W. W. Aldrich, B. Cutler, T. M. Debevoise. In 1935, Debevoise had been succeeded by B. P. Turnbull.

Title Guarantee & Trust Co.: T. M. Debevoise. Off in 1935.

*Other Financial Companies* (1)[a] .......................$1,400,232,000
Equitable Life Assurance Society of the United States: B. Cutler.

*Railroads* (1) .......................................$2,200,900,000
New York Central R.R. Co. (Morgan-controlled): B. Cutler.

*Public Utilities* (1) .................................$4,235,749,000
American Telephone & Telegraph Co. (Morgan-controlled): W. W. Aldrich.

*Miscellaneous Industrial Companies* (6)[b].................$4,488,858,000
Consolidation Coal Co.: [c] A. Woods, R. B. Fosdick.
Standard Oil companies:
- Ohio Oil Co.
- Socony-Vacuum Corp. Now Socony-Vacuum Oil Co., Inc.
- Standard Oil Co. of California.
- Standard Oil Co. (Indiana).
- Standard Oil Co. (New Jersey).

*B. Small Companies (Assets under $75,000,000)*

*Banks* (2) ..........................................$13,874,000
Dunbar National Bank: B. Cutler, C. O. Heydt, J. D. Rockefeller, 3rd. Cutler off in 1935, apparently succeeded by B. P. Turnbull.
Morristown Trust Co.: B. Cutler.

*Other Financial Companies* (4)[d] .........................$123,185,000
Merchants Fire Assurance Corp. of New York (including two affiliates): B. Cutler, J. D. Rockefeller, Jr.
Morristown Securities Corp.: B. Cutler.
Tri-Continental Corp.: B. Cutler.
- Selected Industries Corp.

*Public Utilities*[e]

*Miscellaneous Industrial Companies* (15) ..................$287,938,000
Colorado Fuel & Iron Co.: [c] T. M. Debevoise, A. Woods.
Standard Oil companies:
- Borne Scrymser Co.
- Buckeye Pipe Line Co.
- Chesebrough Manufacturing Co.
- Eureka Pipe Line Co.
- Indiana Pipe Line Co.
- National Transit Co.
- New York Transit Co.
- Northern Pipe Line Co.
- Penn Mex Fuel Co.
- South Penn Oil Co.
- Southern Pipe Line Co.
- South West Pennsylvania Pipe Lines.
- Standard Oil Co. of Ohio.
- Union Tank Car Co.

*C. Assets Not Reported*

*Real Estate* (10)[f]
Abeyton Realty Corp.: C. O. Heydt.
Colonial Williamsburg, Inc.: C. O. Heydt.

Dunbar (Paul Laurence) Apartments: C. O. Heydt, W. S. Richardson.
Metropolitan Square Corp.: C. O. Heydt, A. Woods.
Underel Holding Corp.: C. O. Heydt.
Normandy Realty Corp.: C. O. Heydt.
Springler Van Beuren Estates, Inc.: T. M. Debevoise.
Thomas Garden Apartments, Inc.: C. O. Heydt, W. S. Richardson.
Van Tassel Apartments, Inc.: C. O. Heydt.
Williamsburg Holding Co., Inc.: C. O. Heydt.

### Group II. Companies of John D. Rockefeller Outer Group

| | *Companies with Assets* Over $75,000,000 | Under $75,000,000 | Not Reported | *Reported Assets as of Jan. 1, 1932* |
|---|---|---|---|---|
| Banks .......... | 10 | 15 | — | $ 2,547,738,000 |
| Other Financial .. | 6 | 37 | 10 | 8,219,023,000 |
| Real Estate ...... | — | — | 15 | — — |
| Railroads, etc. .... | 11 | 1 | 1 | 5,864,610,000 |
| Public Utilities ... | 5 | 4 | 2 | 2,418,693,000 |
| Miscellaneous .... | 14 | 49 | 21 | 4,407,886,000 |
| Total ...... | 46 | 106 | 49 | $23,457,950,000 |

*Banks* (10) ..........................................$ 2,259,125,000
Anglo and London Paris National Bank of San Francisco: K. R. Kingsbury. Now Anglo-California National Bank of San Francisco.
Brooklyn Savings Bank: H. I. Pratt.
Brooklyn Trust Co.: H. I. Pratt.
Fifth Third Union Trust Co. (Cincinnati): C. J. Schmidlapp.
First National Bank of Chicago: M. A. Traylor. Traylor died 1934. Bank is now linked to Standard Oil Co. (Indiana) through E. G. Seubert.
First Union Trust & Savings Bank (Chicago): M. A. Traylor. Merged in 1933 with First National Bank of Chicago.
Manufacturers Trust Co.: C. L. Jones.
New York Trust Co.: W. Jennings. Died in 1933; succeeded by B. B. Jennings.
Union Dime Savings Bank: F. H. Ecker.

*Foreign*

Dominion Bank (Toronto): C. O. Stillman. Off in 1935.

*Other Financial Companies* (6)..........................$7,700,161,000
Commercial Credit Corp.: H. M. Walker.
Continental Insurance Co.: C. J. Schmidlapp.
Discount Corp. of New York: * J. McHugh.
Metropolitan Life Insurance Co.: F. H. Ecker.
Northwestern Mutual Life Insurance Co.: H. G. Freeman. Off in 1935.
Prudential Insurance Co. of America: H. Bayne.

*Railroads* (11) ......................................$5,806,375,000
Chicago, Milwaukee, St. Paul & Pacific R.R. Co.: * F. H. Ecker.
Delaware & Hudson Co.: L. F. Loree.

Denver & Rio Grande Western R.R. Co.: [e] F. H. Ecker.
Erie R.R.: G. M. Moffett (off in 1935); and Wheeling & Lake Erie R.R. Co.: L. F. Loree. Both subsidiaries of Alleghany Corp.
Kansas City Southern Railway Co.: [e] L. F. Loree.
St. Louis-San Francisco Railway Co.: [e] F. H. Ecker.
Southern Pacific Co.: M. A. Traylor. Died, 1934.
Wabash Railway Co.: [e] H. R. Winthrop.
Western Maryland Railway Co.: H. E. Cooper.
Western Pacific R.R. Corp.: [e] F. H. Ecker.

*Foreign*

National Railways of Mexico: L. F. Loree.

*Public Utilities* (5)....................................$2,343,079,000
Columbia Gas & Electric Corp.: C. Payne. Off in 1935, but coöperation with Standard Oil Co. (New Jersey) continues.
Interboro Rapid Transit Co.: [e] F. H. Ecker.
Stone & Webster, Inc.: H. L. Pratt.
United Light & Power Co.: R. L. Clarkson. Off in 1935, but Chase National Bank has stock interest.
Western Union Telegraph Co.: F. H. Ecker.

*Miscellaneous Industrial Companies* (14)................$3,352,472,000
Allis-Chalmers Manufacturing Co.: G. M. Moffett. Off in 1935. This company is not among largest 200.
American Can Co.: H. L. Pratt.
American Smelting & Refining Co.: H. E. Cooper. Off in 1935. Now linked to Chase through H. Donald Campbell.
Borden Co.: H. Bayne.
Consolidated Oil Corp.: R. L. Clarkson.
General Electric Co. (Morgan-controlled): M. A. Traylor. No apparent Rockefeller link since death of Traylor in 1934.
General Theatres Equipment, Inc.: [e] Chase National Bank has had control without a director.
Loew's, Inc. General Theatres' minority interest in Loew's has been liquidated.
Goodrich (B. F.) Co.: G. M. Moffett.
International Paper & Power Co.: M. G. Chace.
McKesson & Robbins Inc.: G. M. Moffett. Off in 1935.
National Lead Co.: E. J. Cornish.
Radio Corp. of America: M. A. Traylor. Now Rockefeller through B. Cutler.
U. S. Rubber Co.: H. R. Winthrop. Now under duPont control.

*B. Small Companies (Assets under $75,000,000)*

| | |
|---|---|
| *Banks* (15) | $ 288,613,000 |
| *Other Financial Companies* (37) | 518,862,000 |
| *Railroads* (1) | 58,235,000 |
| *Public Utilities* (4) | 75,614,000 |
| *Miscellaneous Industrial Companies* (49) | 1,055,414,000 |

*Foreign:* Field (J. C. & J.), Ltd.
Penick and Ford, Inc., Ltd.

GROUP III. COMPANIES LINKED TO PERCY A. ROCKEFELLER AND FAMILY

| | Companies with Assets Over $75,000,000 | Under $75,000,000 | Not Reported | Reported Assets as of Jan. 1, 1932 |
|---|---|---|---|---|
| Banks | 1 | 3 | — | $1,951,897,000 |
| Other Financial | 1 | 16 | — | 352,777,000 |
| Real Estate | 1 | 2 | 2 | 137,337,000 |
| Railroads | 1 | — | — | 174,321,000 |
| Public Utilities | 1 | — | — | 1,312,255,000 |
| Miscellaneous | 5 | 11 | — | 1,911,256,000 |
| TOTAL | 10 | 32 | 2 | $5,839,843,000 |

*A. Large Companies (Assets over $75,000,000)*

*Banks* (1) ........................................ $1,928,416,000
National City Bank of N.Y. (incl. City Bank Farmers Trust Co.): P. A. Rockefeller (died), J. A. Stillman. On control, see Chapter VI.

*Other Financial Companies* (1) ........................ $ 112,247,000
Home Insurance Co.: D. H. McAlpin. Off in 1935.

*Real Estate* (1) ........................................ $ 106,119,000
U. S. Realty & Improvement Co.: P. A. Rockefeller (died). Also on one subsidiary and J. A. Stillman on another.

*Railroads* (1) ........................................ $ 174,321,000
Delaware, Lackawanna & Western R.R. Co.: M. H. Dodge.

*Public Utilities* (1) ................................... $1,312,255,000
Consolidated Gas Co. of N.Y.: P. A. Rockefeller (died).

*Miscellaneous Industrial Companies* (5) .................. $1,739,594,000
Anaconda Copper Mining Co.: P. A. Rockefeller (died). On control, see Chapter XI.
Bethlehem Steel Corp. (Morgan dominant): P. A. Rockefeller (died).
Cuba Co.: P. A. Rockefeller (died).
Cuban-Dominican Sugar Corp.: [a] G. S. Rockefeller.
International Match Corp.: [a] P. A. Rockefeller (died).

*B. Small Companies (Assets under $75,000,000)*

*Banks* (3) ........................................ $ 23,481,000
*Other Financial Companies* (16) ........................ 240,530,000
*Real Estate* (2) ........................................ 31,218,000
*Miscellaneous Industrial Companies* (11) .................. 171,662,000
Including Remington Arms Co., Inc., which became in 1933 a subsidiary of E. I, duPont de Nemours.

[a] Not included in total of Group I: Discount Corp. of N. Y. of which W. W. Aldrich became a director after Jan. 1, 1932. This is included, however, in Group II.
[b] Not included in this total are Westinghouse Electric & Manufacturing Co., of which W. W. Aldrich is now a director, and Radio Corp. of America, of which B. Cutler is now a director. Radio Corp. is, however, included in Group II.
[c] In receivership or bankruptcy.
[d] Not included in this total is Summit Title & Mortgage Guaranty Co. of which B. P. Turnbull is now a director.
[e] Not included in this total is Jersey Central Power & Light Co. of which B. P. Turnbull is now a director.
[f] In 1935 Arthur Woods is reported as director of Rockefeller Center, Inc.
[g] Bankrupt. Most of its assets were acquired by successor company, West Indies Sugar Corp., close to National City Bank.

## APPENDIX F

(See Chapter V, p. 73.)

### COMPANIES LINKED TO BOTH MORGAN AND ROCKEFELLER GROUPS
*(as of January 1, 1932)*

MORGAN STRONGER THAN ROCKEFELLER

*Banks* (3)........................................$2,997,646,000
Bankers Trust Co.
National City Bank of N. Y. (no apparent Rockefeller link in 1935).
New York Trust Co.

*Other Financial Companies* (4)........................$2,989,710,000
Atlas Utilities Corp. (now Atlas Corp.)
Discount Corp.
Finance Co. of Great Britain and America.
Prudential Insurance Co. of America.

*Railroads* (7)........................................$6,124,707,000
Delaware, Lackawanna & Western R.R. Co.
Denver & Rio Grande Western R.R. Co.
Erie R.R. Co. and Wheeling & Lake Erie (both of Alleghany Corp. group).
New York Central R.R. Co.
Southern Pacific Co.
Western Pacific R.R. Corp.

*Foreign railroad*

National Railways of Mexico.

*Other Utilities* (2)....................................$5,548,004,000
American Telephone & Telegraph Co.
Consolidated Gas Co. of New York.

*Miscellaneous Industrial Companies* (6).................$1,591,946,000
American Can Co.
Bethlehem Steel Corp. (no apparent Rockefeller link in 1935).

General Electric Co. (no apparent Rockefeller link in 1935).
Remington Arms Co. (now controlled by E. I. duPont de Nemours & Co.).
U. S. Rubber Co. (controlled by duPont interests).
United Stores Corp.

TOTAL, 22 COMPANIES ........................................$19,252,013,000

ROCKEFELLER STRONGER THAN MORGAN

*Banks* (3) ........................................$ 2,002,543,000
Chase National Bank.
Dunbar National Bank.
Morristown Trust Co.

*Other Financial Companies* (4)........................................$ 143,544,000
Morristown Securities Co.
Petroleum Corp.
Tri-Continental Corp.
Selected Industries, Inc.

*Public Utility* (1)........................................$ 530,059,000
United Light & Power Co.

*Miscellaneous Industrial Companies* (4)........................................$3,167,846,000
Air Reduction Corp.
Borden Co.
Commercial Solvents Corp.
Consolidation Coal Co.
Socony-Vacuum Corp. (now Socony-Vacuum Oil Co., Inc.).
Standard Oil Co. (New Jersey).

TOTAL, 14 COMPANIES ........................................$5,843,989,000

RELATIVE STRENGTH NOT CLEAR

*Banks* (3) ........................................$ 957,254,000
First National Bank (Chicago)*.
Manufacturers Trust Co.*
U. S. Savings Bank (New York).

*Other Financial Companies* (8)........................................$ 223,467,000
American Investors, Inc.
American Surety Co.
Lackawanna Securities.
Mortgage-Bond & Title Co.
National Surety Co.
North American Reassurance Co.
U. S. Guarantee Co.
Provident Loan Society.

*Utilities* (3) ........................................$1,460,220,000
Columbia Gas & Electric Corp.
Interborough Rapid Transit Co.
Stone & Webster, Inc.*

*Miscellaneous* (16) .................................$1,841,110,000
American Book Co.
American Smelting & Refining Co.
Burns Bros.
Coca-Cola Co.
Continental Baking Corp.
Cuban Cane Products Co., Inc.
General Foods Corp.
Goodrich (B. F.) Co.
International Paper & Power Co.
Mesabi Iron Co.
Pierce, Butler & Pierce Mfg. Co.
Radio Corp. of America.
South Porto Rico Sugar Co.
U. S. Gypsum Co.*
White Motor Co.
White Rock Mineral Springs Co.
TOTAL, 30 COMPANIES ..............................$4,482,051,000

* Not in any of our Morgan tabulations.

## APPENDIX G

(See Chapter VI, page 93.)

FIRMS AND INDIVIDUALS WHICH HAD JOINED WITH MORGAN FIRM IN POOLS, JOINT ACCOUNTS, AND/OR SYNDICATES FOR STOCK TRADING *

Asiel & Co.
Charles D. Barney & Co.
Bonbright & Co.
Alex. Brown & Sons
Brown Bros. & Co. (later also Brown Bros. Harriman & Co.)
Cassatt & Co.
Clark, Dodge & Co.
Dominick & Dominick
H. Fleishhacker
Grannis, Doty & Co.
Guggenheim, Daniel, Murry, S. R., and Simon
Harnall & Co.
Johnson & Wood
Lindley & Co.
F. S. Moseley & Co.
F. S. Smithers & Co.
Stokes, Hodges & Co.
Wood, Struthers & Co.
and
Bankers Co.
Chase Securities Corp.
First Securities Co.
Guaranty Co. of New York
National City Co.

SOURCE: U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices*, 1933, pp. 269 *ff*.

Most of the 23 firms listed above were represented on the "preferred lists" to which the Morgan and Drexel firms offered new stocks at inside prices. These lists included also more than 40 other brokerage houses or their partners.

The 32 brokerage firms which George Whitney referred to as acting

for the Morgan interests on the floor of the Stock Exchange (*Hearings on Stock Exchange Practices*, page 125) were not named separately.

## APPENDIX H

(See Chapter X, page 160.)

### PARTIAL LIST OF JOINT OPERATIONS OF STANDARD OIL COMPANIES WITH INTEGRATED INDEPENDENT OIL COMPANIES

TEXAS CORP.

A new refinery at Buenos Aires is jointly owned by Texas Corp. and Socony-Vacuum Corp.

A natural gas pipe line from Texas Panhandle to Chicago is jointly controlled by Standard Oil Co. (N.J.), Texas Corp., Cities Service Co., Phillips Petroleum Co. and others.

GULF OIL CORP.

Its French refining interests have been taken over by a company jointly owned by Standard Oil Co. (N.J.), 67½%, and by Gulf Oil Corp. and Atlantic Refining Co.

Near East Development Corp. which owns 23¾% of Iraq Petroleum Corp. (balance held by British and French interests) is owned seven-twelfths by Standard Oil Co. (N.J.), three-twelfths by Socony-Vacuum, and two-twelfths by Gulf Oil.

Gulf Oil operates in Venezuela certain properties owned by Standard Oil Co. (N.J.) through a subsidiary.

An important sulphur deposit in Louisiana is jointly controlled by a Gulf Oil subsidiary, by Humble Oil & Refining Co. (S O N J), and by Shell.

SHELL UNION OIL CORP.

Sulphur deposit in Texas noted above.

Shell Union Oil and Standard of California jointly own Universal Oil Products Co.

CITIES SERVICE CO.

Natural gas pipe line referred to under Texas Corp.

Joint development with Standard Oil Co. (N.J.) of 400,000 acres of oil lands in Venezuela.

Joint ownership with Atlantic Refining Co. of Arkana Transit Corp. (pipe line).

PURE OIL CO.

One-fourth ownership in Ajax Pipe Line, controlled by Standard Oil Co. (N.J.) and Standard Oil Co. (Ohio).

UNION OIL CO. OF CALIFORNIA

Venezuelan concession of 280,000 acres is leased to Standard of New Jersey under royalty agreement.

CONTINENTAL OIL CO.

Two cracking plants (refining) are operated by Standard Oil Co. of Indiana for Continental Oil Co. on a "custom" basis, the oil belonging to Continental.

## APPENDIX I

(See Chapter XX, page 259.)

PRIVATE LONG-TERM FOREIGN INVESTMENTS OF UNITED STATES CAPITAL

| | *Direct investments of American corporations* | *Loans to governments (incl. states and cities)* | *Loans to foreign corporations Government guaranteed* | *Private* | *Total* |
|---|---|---|---|---|---|
| | in millions of dollars | | | | |
| CARIBBEAN AREA, MEXICO, ETC. | | | | | |
| Cuba | 935.7 | 126.3 | — | 4.6 | 1,066.6 |
| Dominican Republic & Haiti | 85.0 | 30.6 | — | — | 115.6 |
| Other West Indies | 51.3 | — | — | — | 51.3 |
| Mexico | 694.8 | 162.8 | 200.0 | — | 1,057.6 |
| Central America[a] | 236.1 | 31.3 | 6.4 | — | 273.8 |
| TOTAL | 2,002,9 | 351.0 | 206.4 | 4.6 | 2,564.9 |
| CANADA & NEWFOUNDLAND | 2,048.8 | 857.2 | 412.7 | 623.0 | 3,941.7 |
| SOUTH AMERICA | | | | | |
| Argentina | 358.5 | 449.3 | — | — | 807.8 |
| Chile | 440.8 | 174.7 | 85.4 | — | 700.9 |
| Brazil | 210.2 | 343.9 | — | 2.9 | 557.0 |
| Colombia | 130.0 | 130.0 | 14.0 | 27.7 | 301.7 |
| Venezuela | 247.2 | — | — | — | 247.2 |
| Peru | 124.7 | 75.4 | — | — | 200.1 |
| Bolivia | 61.6 | 54.4 | — | — | 116.0 |
| Uruguay | 27.9 | 53.2 | — | — | 81.1 |
| Paraguay | 12.6 | — | — | — | 12.6 |
| Ecuador | 11.8 | — | — | — | 11.8 |
| Guianas | 5.7 | — | — | — | 5.7 |
| TOTAL | 1,631.0 | 1,280.9 | 99.4 | 30.6 | 3,041.9 |
| EUROPE | | | | | |
| Germany | 244.0 | 386.1 | 414.6 | 376.3 | 1,421.0 |
| Great Britain | 497.3 | 143.6 | — | — | 640.9 |
| France | 161.8 | 212.6 | 86.9 | 10.0 | 471.3 |
| Italy | 121.2 | 142.9 | 28.4 | 108.6 | 401.1 |
| Sweden | 19.2 | 30.0 | — | 223.5 | 272.7 |
| Belgium | 65.2 | 189.0 | — | — | 254.2 |
| Norway | 23.5 | 152.9 | 16.2 | 21.8 | 214.4 |
| Denmark | 15.9 | 147.2 | 16.6 | 4.0 | 183.7 |
| Poland | 53.2 | 103.7 | 20.4 | — | 177.3 |
| Netherlands | 44.0 | 53.3 | — | 69.3 | 166.6 |
| Hungary | 9.5 | 31.2 | 17.7 | 60.4 | 118.8 |
| Austria | 17.4 | 84.4 | 8.3 | 5.0 | 115.1 |
| Spain | 91.5 | 3.0 | — | — | 94.5 |
| All other European[b] | 104.9 | 254.4 | 23.1 | 15.2 | 397.6 |
| TOTAL | 1,468.6 | 1,934.3 | 632.2 | 894.1 | 4,929.2 |

| | | | | | |
|---|---|---|---|---|---|
| **Asia** | | | | | |
| Japan | 61.5 | 205.0 | 35.4 | 142.7 | 444.6 |
| Netherland East Indies | 66.2 | 135.1 | — | 0.1 | 201.4 |
| China | 155.1 | 41.7 | — | — | 196.8 |
| Philippine Islands | 81.4 | 68.8 | 2.3 | 13.7 | 166.2 |
| All other Asiatic [c] | 80.6 | 0.3 | — | — | 80.9 |
| Total | 444.8 | 450.9 | 37.7 | 156.5 | 1,089.9 |
| **Oceania** | | | | | |
| Australia and New Zealand | 154.6 | 262.4 | — | 2.3 | 419.3 |
| **Africa** | | | | | |
| British Africa including Egypt | 96.4 | — | — | — | 96.4 |
| All other Africa | 18.9 | 2.5 | — | — | 21.4 |
| Total | 115.3 | 2.5 | — | — | 117.8 |
| **World Total** | 7,866.0 | 5,139.2 | 1,388.4 | 1,711.1 | 16,104.7 |

[a] In order of total investment: Guatemala, Honduras, Panama, Salvador, Costa Rica, Nicaragua.

[b] In order of total investment: Finland, Switzerland, Yugoslavia, Greece, Czechoslovakia, Rumania, Portugal, Baltic States, Bulgaria, Turkey, Saar Territory, Luxemburg, Irish Free State

[c] In order of total investment: India; British Malaya; Palestine, Syria, and Cyprus; Iraq; Persia.

Sources: Basic source is U. S. Department of Commerce, Trade Information Bulletin 767. But Mexico figures include $362,000,000 of bonds from Winkler estimate, discussed on page 23 of T.I.B. 767. China figures from C. F. Remer, *Foreign Investments in China*, p. 333, are substituted for the China figures given in T.I.B. 767.

# APPENDIX J

(See Chapter XX, page 259.)

## AREA AND POPULATION OF COLONIES AND COUNTRIES CLEARLY WITHIN UNITED STATES SPHERE OF INFLUENCE

### Outlying United States Possessions [a]

| | *Area (sq. miles)* | *Population* |
|---|---|---|
| Alaska (territory) | 586,400 | 59,300 (1930) |
| American Samoa | 76 | 10,000 (1930) |
| Guam | 206 | 18,500 (1930) |
| Hawaii (territory) | 6,407 | 415,000 (1934, est.) |
| Panama Canal Zone | 549 | 46,400 (1934, est.) |
| Puerto Rico | 3,435 | 1,645,100 (1934, est.) |
| Philippine Islands | 114,400 | 12,927,400 (1934, est.) |
| Virgin Islands | 133 | 22,000 (1930) |

CARIBBEAN AND CENTRAL AMERICAN COUNTRIES IN UNITED STATES SPHERE OF INFLUENCE [b]

| | Area (sq. miles) | Population |
|---|---|---|
| Cuba .............. | 44,164 | 3,962,000 (1931) |
| Dominican Republic .. | 19,332 | 1,275,000 (1932) |
| Haiti .............. | 10,204 | 2,600,000 (1932, unoff. est.) |
| Panama ............ | 32,380 | 467,000 (1930) |
| Costa Rica .......... | 23,000 | 552,000 (1933, est.) |
| Nicaragua .......... | 51,660 | 800,000 (1932, unoff. est.) |
| Honduras ........... | 44,275 | 854,000 (1930) |
| Salvador ........... | 13,176 | 1,550,000 (1933, est.) |
| Guatemala .......... | 42,367 | 2,234,000 (1933, est.) |

IN AFRICA: INFORMAL "PROTECTORATE" [b]

| | Area (sq. miles) | Population |
|---|---|---|
| Liberia ............. | 43,000 | 2,500,000 (1932, unoff. est.) |

[a] Statistical Abstract of the United States, 1934.

[b] Population from Statistical Year-Book of the League of Nations, 1933-34; area from Statesman's Year Book, 1934.

# REFERENCE NOTES

## Chapter I
(Pp. 13 to 32.)

1. Nathaniel A. Ware, *Notes on Political Economy . . . by a Southern Planter*, New York, 1844, p. 202.
2. Victor S. Clark, *History of Manufactures in the United States*, McGraw-Hill, 1929, vol. 2, p. 10.
3. R. E. Riegel, *The Story of the Western Railroads*, Macmillan, 1926, p. 43.
4. A. M. Sakolski, *The Great American Land Bubble*, Harpers, 1932, pp. 287-311.
5. Willard L. Thorp, *The Integration of Industrial Operation*, Census Monograph III, 1924.
6. Victor S. Clark, in *American Historical Review*, October, 1916, pp. 58-64.
7. A. A. Berle and G. C. Means, *The Modern Corporation and Private Property*, Commerce Clearing House, 1932, p. 31.
8. *Idem*, pp. 33 and 36.
9. *Idem*, pp. 28-32.
10. President's Conference on Unemployment, *Recent Economic Changes in the United States*, 1929, p. 186.
11. Berle and Means, *op. cit.*, p. 362.
12. John Moody and George K. Turner, "Masters of Capital," *McClure's Magazine*, November, 1910.
13. Moody and Turner, in *McClure's Magazine*, June, 1911.
14. Karl Marx, *Capital*, Kerr edition, vol. 3, pp. 472-473.
15. Moody and Turner, in *McClure's Magazine*, August, 1911.
16. U. S. Bureau of Internal Revenue, *Statistics of Income*, 1929, p. 332.
17. V. I. Lenin, *Imperialism, the Highest Stage of Capitalism*, International edition, 1933, p. 81.

## Chapter II
(Pp. 33 to 46.)

1. U. S. House of Representatives, 62: III, Report no. 1593, "Pujo Committee" report, 1913, p. 57.
2. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices*, 1933, p. 22.
3. *Wall Street Journal*, March 22, 1933.
4. *New York Times*, April 9, 1871.
5. *Commercial & Financial Chronicle*, August 4, 1900, p. 206; August 18, 1900, p. 310; April 27, 1901, p. 794; May 4, 1901, p. 844.
6. Margaret A. Marsh, *The Bankers in Bolivia*, Vanguard, 1928, p. 95; Graham H. Stuart, *Latin America and the United States*, Century, 1928, p. 321; *New York Tribune*, July 14, 1901.
7. Lewis Corey, *The House of Morgan*, G. Howard Watt, 1930, p. 221.
8. *Idem*, p. 219.
9. *New York Evening Post*, March 31, 1913.
10. Corey, *op. cit.*, p. 326.
11. Amos Pinchot, in *The Nation*, July 5,
12. U. S. Senate, 72: I, Committee on Finance, *Hearings on Sale of Foreign Bonds or Securities in the United States*, 1931-32, p. 223.
13. U. S. House of Representatives, 37: II, *Reports of Committees*, vol. 1, 1861-62, p. 52.
14. Corey, *op. cit.*, p. 69.
15. Alexander D. Noyes, *Forty Years of American Finance*, New York, 1909, pp. 234-235.
16. Corey, *op. cit.*, p. 273.
17. Louis D. Brandeis, *Other People's Money*, Stokes, 1932 edition, p. 192. 1933.
18. *Fortune*, August, 1933.

19. *Wall Street Journal,* May 25, 1935, quoting William Duggan, Collector of Internal Revenue for the financial district.
20. *New York Times,* October 24, 1924.
21. *Fortune,* August, 1933; *New York Times,* June 14, 1931; *Wall Street Journal,* December 14, 1933.

## Chapter III
(Pp. 47 to 62.)

1. John T. Flynn, *God's Gold: The Story of Rockefeller and His Times,* Harcourt, 1932, p. 54.
2. John D. Rockefeller, *Random Reminiscences of Men and Events,* Doubleday, Page, 1909, p. 33.
3. Flynn, *op. cit.*, pp. 273-277.
4. Quoted on fly-leaf of Ida M. Tarbell's *History of the Standard Oil Co.*, Macmillan, 1904.
5. Flynn, *op. cit.*, pp. 245-257.
6. *Idem,* p. 321.
7. *Idem,* p. 174.
8. *Idem,* p. 447.
9. *New York Times,* November 19, 1933.
10. Flynn, *op. cit.*, pp. 344-349.
11. John Moody and George K. Turner, "Masters of Capital," *McClure's Magazine,* March, 1911.
12. Flynn, *op. cit.*, p. 447.
13. *New York Times,* February 2, 1933.
14. *Idem,* October 24, 1924, and September 6, 1925.
15. Flynn, *op. cit.*, p. 330.
16. *Idem,* p. 476.
17. *Wall Street Journal,* January 10, 1935.
18. *New York Times,* May 25, 1928; Anna Rochester, *Labor and Coal,* International Publishers, 1931.
19. *United Mine Workers Journal,* August 15, 1932.
20. U. S. Senate, 64: I, Document no. 415, Commission on Industrial Relations, *Final Report and Testimony,* 1916, p. 7806.
21. *Idem,* p. 8304.
22. *United Mine Workers Journal,* August 15, 1932.

## Chapter IV
(Pp. 63 to 71.)

1. Harvey O'Connor, *Mellon's Millions,* John Day, 1933, p. 295.
2. *Idem,* p. 92.
3. *Idem,* p. 279.
4. *Idem,* p. 62.
5. U. S. Senate, 70: I, Committee on Interstate Commerce, *Hearings on Conditions in the Coal Fields of Pennsylvania, West Virginia and Ohio,* 1928, vol. 1, p. 859.
6. Anna Rochester, *Labor and Coal,* p. 100.
7. O'Connor, *op. cit.*, pp. 349-350.
8. *New York Times,* February 18, 1935.
9. *Federated Press,* story from Pittsburgh, November 9, 1931.

## Chapter V
(Pp. 72 to 86.)

1. Lewis Corey, *The House of Morgan,* p. 301.
2. Standard Statistics Co., *Standard Corporation Records,* volume T-Z, October 25, 1934, p. 5186.
3. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices,* 1933, p. 1356.
4. U. S. Senate, 72: I, Committee on Finance, *Hearings on Sale of Foreign Bonds or Securities in the United States,* 1931-32, pp. 159 *ff.*, and p. 184.
5. *Wall Street Journal,* March 22, 1933.
6. *Hearings on Stock Exchange Practices,* 1933, p. 960.
7. U. S. House of Representatives, 62: III, Report no. 1593, "Pujo Committee" report, 1913, p. 131.

8. *Wall Street Journal,* March 22, 1933.
9. *New York Times,* July 15, 1932.
10. *Idem,* August 10, 1935.
11. *Hearings on Sale of Foreign Bonds or Securities in the United States,* 1931-32, pp. 501-506.

## Chapter VI
(Pp. 87 to 102.)

1. *American Banker,* January 22, 1935.
2. B. M. Anderson, in *American Banker,* October 26, 1929; Harvey D. Gibson quoted in *New York Times,* December 23, 1934.
3. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices,* 1933, p. 64.
4. U. S. Senate, 73: II, Report no. 1455, *Report ... on Stock Exchange Practices,* 1934, p. 87.
5. *Wall Street Journal,* September 11, 1934.
6. Wood, Struthers & Co., *Trusteeship of American Endowments,* Macmillan, 1932, p. 6.
7. *Wall Street Journal,* January 11, 1933.
8. Maurice Taylor, *The Social Cost of Industrial Insurance,* Knopf, 1933, p. 111.
9. *Idem,* p. 420.
10. *Idem,* p. 202.
11. Horace B. Davis, *Labor and Steel,* International Publishers, 1933, pp. 159-162.
12. *New Republic,* February 20, 1935.
13. *New York Times,* April 23, 1933.
14. *New Republic,* April 20, 1932.
15. *Report ... on Stock Exchange Practices,* 1934, p. 115.

## Chapter VII
(Pp. 103 to 120.)

1. *Fibre & Fabric,* March 5, 1932.
2. *New York Times,* May 17, 1933.
3. *The Nation,* January 11, 1933; *New York Times,* March 13, 1935.
4. *Wall Street Journal,* October 2, 1935.
5. *New York Times,* June 27, 1934.
6. *Wall Street Journal,* April 20, 1935.
7. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices,* 1933, pp. 397-398.
8. Lincoln Steffens, *Autobiography of Lincoln Steffens,* Harcourt, 1931, pp. 590-591.
9. *Idem,* pp. 587 *ff.*
10. *Hearings on Stock Exchange Practices,* 1933, pp. 55 and 61.
11. *Wall Street Journal,* October 15, 1935.
12. James C. Bonbright and Gardiner C. Means, *The Holding Company,* McGraw-Hill, 1932, p. 116.
13. U. S. House of Representatives, 72: II, Report no. 2192, *Report on Pipe Lines,* 1933, p. xxxvi.

## Chapter VIII
(Pp. 121 to 143.)

1. Charles E. Merriam and H. F. Gosnell, *The American Party System,* Macmillan, 1929 edition, p. 168.
2. Frank R. Kent, *Political Behavior,* Morrow, 1928, p. 35.
3. *Idem,* p. 181.
4. *Idem,* p. 183.
5. Louise Overacker, *Money in Elections,* Macmillan, 1932, p. 133.
6. Kent, *op. cit.,* p. 221.
7. William B. Munro, of California Institute of Technology, in signed article, *New York Times,* April 17, 1932.
8. William H. Grimes, *Wall Street Journal,* July 11, 1932.
9. Eugene W. Lokey, *New York Times,* October 30, 1932.
10. W. M. Kiplinger, *Nation's Business,* December, 1932.
11. *Federated Press,* Washington service, December 7, 1933.

12. Charles A. and Mary Beard, *Rise of American Civilization,* Macmillan, 1927, vol. II, p. 302, quoting Havemeyer testimony, federal investigation of 1893.
13. Merriam and Gosnell, *op. cit.,* p. 118.
14. J. T. Salter, *Boss Rule, Portraits in City Politics,* Whittlesey House, 1935, p. 216.
15. *New York Times,* January 18, 1933.
16. *Federated Press,* Washington service, February 22 and May 25, 1933.
17. *Idem,* October 24, 1933.
18. Hugh S. Johnson, *The Blue Eagle from Egg to Earth,* Doubleday, Doran, 1935, p. 217.
19. John H. Gray and Jack Levin, *The Valuation and Regulation of Public Utilities,* Harper, 1933, pp. 119 and 120.
20. *New York Times,* November 13, 1934.
21. *Federated Press,* Washington service, May 12, 1933.
22. U. S. Senate, 73: II and 74: I, Special Committee Investigating the Munitions Industry ("Nye Committee"), *Hearings on Munitions Industry,* 1934-35, pp. 2700-2701.
23. *Idem,* p. 2824.
24. *Idem,* p. 982.
25. *Foreign Policy Reports,* vol. X, no. 20, revised edition, January 21, 1935, p. 263.
26. *Ibid.*
27. "Nye Committee" hearings, pp. 62, 170 and 219.
28. *Foreign Policy Reports, op. cit.,* p. 265.
29. "Nye Committee" hearings, p. 2707.
30. Bulletin reprinted in *Daily Worker,* December 29, 1934.
31. *New York Times,* June 11, 1935.
32. *Fortune,* August, 1933.
33. *New York Tribune,* April 1, 1913.
34. *New York Times,* April 1, 1913.
35. *New York Tribune,* April 1, 1913.
36. Raymond G. Swing, in *The Nation,* May 1, 1935.
37. Thomas W. Lamont, in *Manchester Guardian,* January 27, 1920.
38. Gabriel Hanotaux, *Histoire Illustrée de la Guerre de 1914,* Gounouilhou (Paris), 1915-24, fascicule no. 107, pp. 54-55.
39. C. Hartley Grattan, *Why We Fought,* Vanguard, 1929, p. 120.
40. Ray Stannard Baker, *Woodrow Wilson, Life and Letters,* vol. 5, p. 83.
41. New York *World-Telegram,* December 14, 1934; *Fight,* February, 1935.
42. V. I. Lenin, *Collected Works,* vol. XXI, book II, International edition, 1932, p. 154, quoting Engels, *The Origin of the Family, Private Property and the State.*
43. Lenin, *op. cit.,* p. 159.
44. Lenin, *op. cit.,* pp. 217-218.
45. *Wall Street Journal,* March 16, 1933.
46. *Idem,* April 25, 1934.

## Chapter IX
(Pp. 144 to 154.)

1. *Encyclopedia of the Social Sciences,* article on "Fortunes, Private."
2. *New Republic,* reprinting Jackson testimony, August 28, 1935.
3. Leven, Moulton and Warburton, *America's Capacity to Consume,* Brookings, 1934, pp. 55-56.
4. *Idem,* pp. 227-228.
5. *New York Times,* August 7, 1935, and U. S. Bureau of Internal Revenue, *Statistics of Income, Preliminary, for 1933.*
6. Mimeographed report on *Dividends, Interest and Profits, 1923-1935,* privately circulated in June, 1935.
7. *Wall Street Journal,* April 4, 1935.
8. *New York Times,* November 20, 1935.
9. Federal Coördinator of Transportation, *Annual Earnings of Railroad Employees, 1924-1933,* May, 1935, pp. 38-41 and 51.
10. *Federated Press,* Washington service, June 4, 1935.
11. *Federated Press,* June 19, 1935.
12. *Wall Street Journal,* June 25, 1935.
13. *New York Times,* July 12, 1935.
14. *Conference Board Bulletin,* vol. VIII, no. 2, February 20, 1934.
15. E. Varga, *The Great Crisis and Its Political Consequences,* International, 1935, p. 175.
16. *Federated Press,* June 27, 1935.
17. *New York Times,* March 19, 1929.

18. *Herald-Tribune*, New York, February 27, 1934.

19. Paul Henry Nystrom, *Economic Principles of Consumption*, Ronald, 1929, pp. 278 *ff*.

## Chapter X
(Pp. 157 to 163.)

1. U. S. House of Representatives, 72: II, Report no. 2192, *Report on Pipe Lines*, 1933, p. xxiv.
2. *Idem*, p. xxxvi.
3. Frank A. Fetter, *The Masquerade of Monopoly*, Harcourt, 1931, p. 51.
4. *Idem*, p. 52, quoting president of National Marketers' Association.
5. *New York Times*, April 14 and 19, 1931.
6. Description from petroleum section of Second Report by National Recovery Review Board ("Darrow Committee"), 1934.
7. Ludwell Denny, *We Fight for Oil*, Knopf, 1928, p. 166.

## Chapter XI
(Pp. 164 to 173.)

1. *Recueil Financier*, 1934, II, p. 1199.
2. C. E. Fraser and G. F. Doriot, *Analyzing Our Industries*, McGraw-Hill, 1932, pp. 218-221.
3. *New York Times*, March 29, 1935.
4. *Year Book of the American Bureau of Metal Statistics*, 1929, 1930, 1933.

## Chapter XII
(Pp. 174 to 187.)

1. U. S. Senate, 70: I, Document no. 46, Federal Trade Commission Report, *Supply of Electrical Equipment and Competitive Conditions*, 1928, p. 74.
2. *Wall Street Journal*, March 19, 1935.
3. Hearings before the National Recovery Review Board ("Darrow Committee") on the Electrical Manufacturing Industry, March 23, 1934.
4. International General Electric, *The Digest*, November, 1932, vol. 12, no. 4, and lists of General Electric subsidiaries in financial manuals.
5. National Electrical Manufacturers Association, *Annual Report for Year Ended August 31, 1934*.
6. Hearings before "Darrow Committee," March 15, 1934, statement by counsel for National Electrical Manufacturers Association.
7. Standard Statistics Co., *Standard Daily Trade Service, Industries Section*, vol. 67, no. 6, section 2, January 13, 1933; vol. 68, no. 15, section 2, May 5, 1933.
8. *Wall Street Journal*, May 7, 1935.
9. *Handbuch der deutschen Aktien-Gesellschaften*, 1934, II, pp. 1953 and 1955.
10. U. S. Senate, 70: I, Document no. 46, *op. cit.*, p. 142.
11. *New York Times*, May 11, 1930, and December 8, 1931.
12. *Idem*, November 16, 1935.
13. Alfred Plummer, *International Combines in Modern Industry*, Pitman (London), 1934, p. 41.
14. *Barron's*, November 7, 1932.
15. *Broadcasting*, November 1, 1934.
16. Standard Statistics Co., *Standard Corporation Records, Individual Reports Section*, Card W 17, December 18, 1933.
17. *Wall Street Journal*, July 18, 1935.
18. Standard Statistics Co., *Standard Corporation Records*, volume P-S, description of Radio-Keith-Orpheum Corp., September 16, 1934.
19. *Wall Street Journal*, August 1, 1935.
20. *Idem*, September 12, 1935, and October 10, 1935.

## Chapter XIII
(Pp. 188 to 198.)

1. Quoted by Francis P. Garvan in *Brief Submitted on Behalf of Chemistry in the United States*, Chemical Foundation, January, 1935, p. 17.
2. *Idem*, p. 46.
3. *Wall Street Journal*, October 28, 1935.
4. *Encyclopedia of the Social Sciences*, vol. 5, p. 301.
5. Alfred Plummer, *International Combines in Modern Industry; Chemical and Metallurgical Engineering*, November, 1931, p. 622.
6. Robert Liefmann, *Cartels, Concerns and Trusts*, Methuen (London), 1932, p. 318; H. C. Engelbrecht and F. C. Hanighen, *Merchants of Death, A Study of the International Armament Industry*, Dodd, Mead, 1934, p. 34.
7. Engelbrecht and Hanighen *op. cit.*, p. 254.
8. Francis P. Garvan, *op. cit.*, p. 31.
9. Col. E. G. Bruckner, *Address on the Relations of duPont American Industries to the War*, duPont American Industries General Sales Convention, Atlantic City, N. J., 1918.
10. E. I. duPont de Nemours & Co., *The duPont Company and Munitions*, September, 1934, pp. 5, 27.
11. *Wall Street Journal*, September 26, 1935.
12. *Idem*, April 23, 1935.
13. *New York Times*, April 25, 1935.
14. Francis P. Garvan, *op. cit.*, p. 24.

## Chapter XIV
(Pp. 199 to 207.)

1. U. S. Senate, 73: II and 74: I, Special Committee Investigating the Munitions Industry ("Nye Committee"), *Hearings on Munitions Industry*, 1934-35, p. 695.
2. Howard Mingos, *The Birth of an Industry*, W. B. Conkey Co., 1930, p. 31.
3. *Annalist*, March 9, 1934, p. 403.
4. Standard Statistics Co., Inc., *Standard Daily Trade Service, Industries Section*, vol. 67, no. 30, section 2, March 10, 1933.
5. *Fortune*, May, 1934, p. 160.
6. *Idem*, p. 164.
7. *Wall Street Journal*, February 8, 1934.
8. *Idem*, January 2, 1935.
9. *Idem*, September 4, 1934.
10. *Ibid.*
11. *Wall Street Journal*, October 7, 1935.
12. Standard Statistics Co., Inc., *Standard Daily Trade Service, Industries Section*, vol. 75, no. 25, section 2, February 27, 1935.
13. Fraser and Doriot, *Analyzing Our Industries.*
14. U. S. Senate, 73: II, *Hearings, before a Special Committee on Investigation of Air Mail and Ocean Mail Contracts*, 1933-34, p. 2137.
15. *Wall Street Journal*, February 14, 1934.
16. *Idem*, August 11, 1934.
17. *Idem*, October 7, 1935.
18. *New York Times*, August 21, 1935.
19. *Wall Street Journal*, March 27, 1935.
20. Howard Mingos, *op. cit.*, p. 39.
21. *Fortune*, May, 1934, p. 163.
22. *New York Times*, March 25, 1930.
23. *Idem*, November 22, 1934.
24. New York *Herald Tribune*, December 17, 1934.
25. *New York Times*, August 25, 1935.

## Chapter XV
(Pp. 208 to 222.)

1. *Congressional Digest*, November, 1934, p. 273, quoting *Army Ordnance.*
2. *New York Times*, February 6, 1932.
3. New York Trust Co., *Index*, March, 1935.
4. *Fortune*, March, 1934, p. 55.

5. Benedict Crowell and Robert F. Wilson, *The Giant Hand, Our Mobilization and Control of Industry and Natural Resources*, 1917-18, Yale, 1921, p. 106.
6. Henry R. Seager and Charles A. Gulick, Jr., *Trust and Corporation Problems*, Harper, 1929 edition, p. 199; *Annual Reports of the Navy Department* for the fiscal year, 1914, p. 21.
7. Fraser and Doriot, *Analyzing Our Industries*, pp. 250, 257.
8. *Wall Street Journal*, September 4, 1935.
9. *New York Times*, March 18, 1935.
10. *Financial News* (London), August 2, 1935.
11. U. S. House of Representatives, 63: II, Naval Affairs Committee, *Hearings on Estimates Submitted by the Secretary of the Navy*, 1913-14, p. 621.
12. *Iron Age*, January 3, 1935, pp. 135-136.
13. Crowell and Wilson, *op. cit.*, p. 107.
14. Federal Trade Commission, *Report on War-Time Profits and Costs of the Steel Industry*, February 18, 1925, p. 29.
15. *U. S. Congressional Record*, Appendix to February 15, 1915, vol. 52, part 6, p. 419.
16. *Wall Street Journal*, March 12, 1935.
17. George Seldes, *Iron, Blood and Profits, an Exposure of the World-Wide Munitions Racket*, Harper, 1934.
18. *New Republic*, May 9, 1934.
19. *New York Times*, January 22, 1935.
20. *Wall Street Journal*, March 9, 1935.
21. *New York Times*, report of Nye hearings, February 13, 1935.
22. *Ibid.*
23. *New York Times*, report of Nye hearings, February 17, 1935.
24. U. S. Senate, 73: II and 74: I, Special Committee Investigating the Munitions Industry ("Nye Committee"), *Hearings on Munitions Industry*, 1934-35, p. 9.
25. *Idem*, p. 438.
26. *Idem*, p. 264.
27. *Idem*, p. 97.
28. *Idem*, p. 167.
29. *Idem*, pp. 121 and 363.
30. *Fortune*, March, 1934, p. 56.
31. "Nye Committee" hearings, p. 70.
32. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices*, 1933, p. 2021; "Nye Committee" hearings, p. 388.
33. *New Republic*, May 9, 1934, p. 355.
34. George Seldes, *op. cit.*, p. 97.
35. Thomas' *Register of American Manufactures*, 1934.
36. "Nye Committee" hearings, p. 186.
37. *Foreign Policy Reports*, vol. X, no. 17, October 24, 1934.
38. "Nye Committee" hearings, p. 523, Exhibit 200.
39. *Idem*, p. 558.
40. *Idem*, p. 472.
41. *Idem*, Exhibit 199.
42. *Idem*, p. 527.
43. *Foreign Policy Reports*, vol. X, no. 20, revised edition, January 21, 1935.
44. "Nye Committee" hearings, pp. 618 *ff*.
45. *Idem*, p. 674.
46. *Idem*, pp. 1762, 1617, 1696, 1618.
47. *Idem*, pp. 1943, 1937, 1947.
48. Fraser and Doriot, *op. cit.*, p. 189.
49. Labor Research Association.

## Chapter XVI
(Pp. 223 to 231.)

1. John W. Chapman, *Railroad Mergers*, Simmons-Boardman, 1934, pp. 22 and 37.
2. *New York Times*, June 9, 1935.
3. *Wall Street Journal*, April 13, 1935.
4. *New York Times*, December 15, 1935.
5. *New York Times*, August 10, 1935.
6. Harold G. Moulton and Associates, *The American Transportation Problem*, Brookings, 1933, pp. 194-197.
7. U. S. Senate, 74: I, Committee on Interstate Commerce, *Hearings on Investigation of Railroad Financing*, Charles A. Beard's testimony, March, 1935.

## Chapter XVII
(Pp. 232 to 239.)

1. Quoted by Webster Powell and A. T. Cutler, "Tightening the Cotton Belt," *Harper's Magazine*, February, 1934.
2. Evans Clark, Editor, *Internal Debts of the United States*, Macmillan, 1933, p. 10.
3. *Idem*, p. 40.
4. *Idem*, p. 34.
5. *Federated Press*, Washington Bureau, January 31, 1933.
6. Evans Clark, *op. cit.*, p. 42.
7. *Wall Street Journal*, September 9, 1933, referring to study by the state agricultural college.
8. *Labor Fact Book II*, 1934, p. 150.
9. *Idem*, p. 151.
10. John A. Todd, *The Marketing of Cotton*, Pitman (London), 1934, p. 36.
11. S. Stern, in *Cotton Trade Journal*, New Orleans, April 30, 1927.

## Chapter XVIII
(Pp. 240 to 247.)

1. *Fifteenth Census of the United States*, 1930, Distribution, vol. 1, Retail, Part 1, p. 17.
2. *Idem*, *p*. 28.

## Chapter XIX
(Pp. 248 to 256.)

1. *Wall Street Journal*, June 19, 1935.
2. Frederick C. Mills, *Economic Tendencies in the United States*, National Bureau of Economic Research, 1932, p. 331.
3. *International Press Correspondence*, quarterly numbers on world economic situation.
4. Lenin, *Imperialism, the Highest Stage of Capitalism*, p. 80.

## Chapter XX
(Pp. 259 to 284.)

1. Great Britain, Overseas Trade Department, *Economic Conditions in the Philippine Islands*, 1932.
2. *New York Times*, May 7, 1935.
3. Parker T. Moon, *Imperialism and World Politics*, Macmillan, 1930, p. 424.
4. Scott Nearing and Joseph Freeman, *Dollar Diplomacy*, Huebsch, 1925, p. 264.
5. Moon, *op. cit.*, p. 432.
6. Nnamdi Azikiwe, *Liberia in World Politics*, Stockwell (London), 1934, p. 334.
7. J. Reuben Clark, Jr., "The Oil Settlement with Mexico," *Foreign Affairs*, July, 1928.
8. Willard Straight, *Address on Foreign Trade and Foreign Loans*, at National Foreign Trade Convention, Washington, May, 1914.
9. *American Banker*, January 9, 1932.
10. Arnold Roller, in *The Nation*, September 17, 1930.
11. *New York Times*, May 7, 1935.
12. Frank Tannenbaum, *The Mexican Agrarian Revolution*, Macmillan, 1929.
13. Great Britain, Overseas Trade Department, *Economic Conditions in Chile*, 1932.
14. Carleton Beals, *The Crime of Cuba*, Lippincott, 1933, p. 375.
15. Emily G. Balch, *Occupied Haiti*, Writers Publishing Co., New York, 1927, p. 24.
16. Tannenbaum, *op. cit.*, p. 360.
17. *Federated Press*, Washington service, November 13, 14 and 15, 1930.

18 *New York Times*, December 29, 1933.
19. Sources given in Nearing and Freeman, *Dollar Diplomacy*, p. 37; also, Charles Denby in *The Annals*, November, 1916.
20. Thomas W. Lamont, *Preliminary Report on the New Consortium for China*, privately printed, 1920.
21. C. F. Remer, *Foreign Investments in China*, Macmillan, 1933, p. 338.
22. N. Y. *World-Telegram*, September 14, 1934; *Wall Street Journal*, April 2, 1935.
23. *Canada Year Book*, 1933, p. 879.
24. Ray Stannard Baker, *Woodrow Wilson, Life and Letters*, vol. 5, 1935, pp. 179-181.
25. U. S. Senate, 72: I, Committee on Finance, *Hearings on Sale of Foreign Bonds or Securities in the United States*, 1931-32.
26. U. S. Senate, 73: I, Committee on Banking and Currency, *Hearings on Stock Exchange Practices*, 1933, p. 250.
27. Lenin, *Imperialism, the Highest Stage of Capitalism*, p. 91.

## Chapter XXI
(Pp. 285 to 299.)

1. J. Stalin, *Leninism*, International edition, 1933, vol. II, p. 314.
2. *Idem*, p. 315.
3. President's Conference on Unemployment, *Recent Economic Changes in the United States*, 1929, p. 879.
4. The Labor Bureau, Inc., *Facts for Workers*, February, 1928.
5. *New Republic*, August 28, 1935.
6. *Conference Board Bulletin*, July 10, 1935.
7. Tabulation in *Daily Worker*, July 27, 1935.

## Chapter XXII
(Pp. 300 to 306.)

1. *Resolution on Fascism and Working Class Unity*, adopted August 20, 1935, at 7th World Congress of the Communist International.
2. Lenin, *Collected Works*, vol. XVIII, p. 279.
3. *Idem*, p. 280.

# A FEW SOURCES NOT SHOWN ELSEWHERE

## 1. GOVERNMENT DOCUMENTS

League of Nations, Financial Section and Economic Intelligence Service,
*World Economic Survey* (annual).
*Monthly Bulletin of Statistics.*

New York State Supt. of Insurance, *Annual Reports.*

U. S. Bureau of the Census, *Fifteenth Census of the United States* (1930) and other publications.

U. S. Bureau of Foreign and Domestic Commerce,
*Statistical Abstract of the United States* (annual).
*Statistical Record of the Progress of the United States 1800-1920* (1920).
*Survey of Current Business* (monthly).

U. S. Bureau of Labor Statistics, *Monthly Labor Review* and other publications.

U. S. Director of Munitions, *America's Munitions, 1917-1918, Report of Benedict Crowell* (1919).

U. S. Federal Reserve Board, *Annual Reports.*

U. S. Federal Trade Commission, *Reports.*

U. S. House of Representatives, 62: III, Committee on Banking and Currency, *Hearings of Committee Appointed Pursuant to House Resolutions 429 and 504 to Investigate the Concentration of Control of Money and Credit.*

U. S. Industrial Commission, *Reports* (19 volumes), 1900-1902.

U. S. Interstate Commerce Commission, *Wage Statistics of Class I Steam Railways in the United States* (monthly).

U. S. Navy Dept., *The United States Navy as an Industrial Asset* (1922 and, revised, 1924); *The United States Navy in Peace Time: The Navy in its Relation to the Industrial, Scientific, Economic, and Political Development of the Nation* (1931).

U. S. Reconstruction Finance Corp., *Annual Reports and Quarterly Statements.*

U. S. Senate, 55: II, Doc. no. 178, pt. 18, *Venezuela.*

U. S. State Dept., *Papers Relating to Foreign Affairs* (annual).

U. S. Statutes, *Code* and *Statutes at Large.*

## 2. FINANCIAL MANUALS, DIRECTORIES, ETC.

*Annuaire-Chaix,* Les Principales Sociétés par Actions, Paris.

*Annuaire Desfossés,* Paris.

Best's *Insurance Reports,* New York (annual volumes).

*The China Stock and Share Handbook,* Shanghai (annual).

*Compass, Austria, Czechoslovakia, Jugoslavia, Roumania, and Personenverzeichnis,* (annual).

*Directory of Directors,* London (annual).

*Directory of Directors in the City of New York,* (annual).

*Das Grünbuch der Aktiengesellschaften,* Berlin (annual).

*Insurance Year Book, Life Insurance,* Spectator Co., New York (annual).

Moody's *Manuals of Banks, Governments, Industrials, Public Utilities,* and *Railroads,* New York (annual).

Poor's *Banks, etc., Industrial, Public Utilities,* and *Railroad Volumes* (annual); *Register of Directors in the United States and Canada* (annual).

*The Prentice-Hall Federal Trade and Industry Service,* New York, 1935 (for NRA).

*Saling's Börsen-Jahrbuch,* Berlin (annual).

*Schweizerisches Finanz-Jahrbuch,* Bern (annual).

Smithers (F. S.) & Co., *Standard Oil Companies,* 1914, New York.

Standard Statistics Corp., various periodical services on corporations and industries.

*The Stock Exchange Official Year-Book,* London (annual).

*Van Oss' Effecten Boek,* The Hague (annual).

## 3. BOOKS


Bonnefon-Craponne, Jean, *La Pénétration Economique et Financière des Capitaux Americains en Europe,* Imprimerie Labor, Paris, 1930.

Coman, Katharine, *The Industrial History of the United States,* Macmillan, 1913 edition.

Feis, Herbert, *Europe, The World's Banker (1870-1914),* Yale, 1930.

Grayson, Theodore J., *Leaders and Periods of American Finance,* John Wiley & Sons, New York, 1932.

Hovey, Carl, *The Life Story of J. P. Morgan,* Heinemann, London, 1912.

Ise, John, *The U. S. Oil Policy,* Yale, 1926.

Jarvie, J. R., *The Old Lady Unveiled: a criticism and an explanation of the Bank of England,* Wishart & Co. London, 1933.

Kennan, George, *E. H. Harriman: a Biography,* Houghton Mifflin, New York, 1922.

Kent, Frank R., *The Story of Alexander Brown & Sons,* A. Brown & Sons, Baltimore, 1925.

Lewis, Howard T., *The Motion Picture Industry,* Van Nostrand, New York, 1933.

Lufft, H. A., *Die nordamerikanischen Interessen in Südamerika vor dem Krieg,* Fischer, Jena, 1916.

Marx, Karl, and Engels, Frederick, *The Civil War in the United States,* MSS., International Publishers.

Meissner, Walther, *Das wirtschaftliche Vordringen der Nordamerikaner in Südamerika,* Bibliothek der "Cultura Latino-Americana" nr. 2, Cöthen, (Anhalt) 1919.

Myers, Gustavus, *History of the Great American Fortunes,* C. H. Kerr & Co., Chicago, 1911.

*Outline of the Mitsubishi Enterprises,* Tokyo, 1932.

*Review of Economic Statistics,* Vol. 1, Harvard University, 1919.

Ripley, W. Z., *Main Street and Wall Street,* Little, Brown & Co., Boston, 1927.

Salewski, Wilhelm, *Das Ausländische Kapital in der deutschen Wirtschaft,* W. Girardet, Essen, 1930.

Salmon, David L., *Confessions of a Former Customers' Man,* Vanguard, New York, 1932.

Staley, Eugene, *War and the Private Investor,* Doubleday, Doran, 1935.

Stocking, George W., *The Oil Industry and the Competitive System: a study in waste,* Houghton Mifflin, New York, 1925.

Winkler, John K., *The Du Pont Dynasty,* Reynal & Hitchcock, 1935.

Winkler, Max, *Investments of United States Capital in Latin America,* World Peace Foundation, Boston, 1929.

Also sundry articles located through *Public Affairs Information Service.*

# INDEX

A

B

C

H

I



J



K

N

R

S

T